Austria Sch22	Indonesia ... Rp3100	Portugal Esc200
Bahrain ... Din0.650	Israel NIS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore .... S$4.10
Canada ...... C$1.00	Japan Y600	Spain Pta125
Cyprus ...... C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark ... DKr9.00	Kuwait Fils500	Sweden SKr8.00
Egypt .... E£2.25	Lebanon .. $1,125.00	Switzerland . SFr2.20
Finland Fmk7.00	Luxembourg .. LFr48	Taiwan .... NT$85
France FFr6.50	Malaysia Rin4.25	Thailand Bt50
Germany ... DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong... HK$12	Netherlands... Fl3.00	UAE Dh6.50
India Rup15	Norway NKr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Tokyo: US pays the price of prestige, Page 28

World News

Schlueter appeals for EC summit flexibility

Poul Schlueter, Danish Prime Minister, appealed for flexibility from EC member states on budget and farm reforms at the EC summit which starts today in Copenhagen.

The call appeared to be directed at Margaret Thatcher, the UK Prime Minister, who has spelt out her unwillingness to compromise on the key issue of Britain's EC budget rebate. **Page 28**

Iran mobilisation

Iran is mobilising its forces on an unprecedented scale, said its deputy foreign minister. **Iran holds war games, page 4**

US charges 'contrived'

US accusations that Moscow violated the 1972 ABM treaty were "contrived", said the Soviet foreign ministry.

EC fumes deal signed

Toxic fumes from car exhausts in Europe should fall from next year under a scheme approved by EC environment ministers.

Dhaka MPs quit

Ten members of Bangladesh opposition MPs resigned saying that "parliament had rendered itself totally ineffective."

Brazil debt hopes rise

Hopes rose that Brazil may end its nine month moratorium on debt repayments as banks said they had committed $2.8bn to a £3bn refinancing package. **Page 4**

Call for Efta-EC links

European Free Trade Association must improve links with the EC to avoid being excluded when the EC free market is established in 1992, said Finland's Trade Minister. **Page 2**

Kuwait opens terminal

Kuwait reopened its main oil terminal which was shut on October 22 by a missile attack it blamed on Iran.

Japan liquor tax threat

EC told Japan to reform liquor taxes or face retaliation. **Page 9**

33 die in Sri Lanka

Indian troops shelled a Sri Lankan town after being ambushed by Tamil rebels. 33 died including nine Indians and 19 civilians.

Haiti strike demand

A presidential candidate in Haiti called for a national strike to start today and to last until the army gives up power.

Japan pleases IMF

Japan won praise from the IMF for its efforts to stimulate its own and the world's. "Japan is behaving very well," said Mr Michael Camdessus, IMF's managing director. **Page 4**

Peru defends reserves

Peru is taking measures including devaluation to stem the outflow of foreign reserves. **Page 4**

Officers condemned

Three Mauritanian army officer were sentenced to death for plotting in October to overthrow the Government.

EC-Africa aid pledge

EC plans to send aid of up to $625m to the 22 poorest sub-Saharan countries, it told a meeting of the World Bank's Africa donors.

Contra peace talks

Nicaraguan officials and US-backed rebels met in the Dominican Republic for ceasefire talks.

Sakharov protests

Physicist Andrei Sakharov called for the release of dissidents in the Soviet Union and the withdrawal of troops in Afghanistan.

Cycle helmets banned

Sri Lankan police banned the wearing of crash helmets by motorcyclists after several attacks on police by motor-cycle riding rebels.

Business Summary

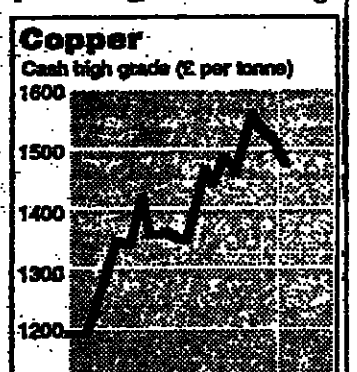
Sale of British Steel to go ahead

THE UK Government is to introduce legislation early in the New Year for the return of the British Steel Corporation to the private sector, either at the end of next year or early in 1989.

The announcement that the corporation is jumping the privatisation queue ahead of water and electricity followed a statement from BSC that it had made a bottom line profit of £190m ($344m) in the six months to October, compared with a full year profit of £178m in 1986-87. **Page 11; editorial comment, Page 26**

SEAGRAM, until recently the world's largest spirits company, posted a 28.8 per cent hike in *quarterly net income to $147.2m*, or $1.53 a share in the company's third quarter from $114.3m or $1.20 a share in the corresponding year-earlier period.

COPPER prices fell on the London Metal Exchange for the sixth consecutive trading day on profit-taking, with the cash high grade price losing £17.50 ($31.6) a tonne to close at £1,477.50. **Commodities Page 40**



WALL STREET: At 2pm the Dow Jones industrial average was down 34.65 at 1,814.32. **Page 52**

LONDON: The FT-SE 100 Index, which had gained 21 points as the market awaited confirmation of the cut in West German rates, ended with a loss on the day of 1.9 at 1588.4. **Page 48**

TOKYO: The 225-issue Nikkei *stock average shed 107.33 points* to 22,808.16 on a turnover of 392.81m shares, down from 531.96m shares the previous day. Declines outnumbered advances by 504 to 373, with 141 issues unchanged. **Page 52**

DOLLAR closed in London at DM1.6595 (DM1.6525); FFr5.64 (FFr5.62); SFr1.3585 (SFr1.3520) and Y132.80 (Y132.70). **Page 41**

STERLING closed in London at $1.8065 ($1.8120); DM2.9975 (DM2.9950); FFr10.1875 (FFr10.1825); SFr2.4550 (SFr2.4500) and Y240.0 (Y240.50). **Page 41**

SHEARSON Lehman Brothers and E.F. Hutton, two leading Wall Street stockbrokers, signed a definitive merger agreement which will create the biggest broking firm in the US. **Page 29**

HITACHI, leading Japanese electrical group, lifted consolidated net profits by 20 per cent in its first half to September to reach Y56.06bn ($423.3m), compared with Y46.56bn in the period last year, although sales dipped 1 per cent to Y2,416bn. **Page 29**

WOOD GUNDY, leading Canadian investment dealer hit by defections and a potential C$55m (US$41.9m) loss on underwriting the recent British Petroleum offer in Canada, has told 150 employees that they are to be laid off, with immediate effect. **Page 29**

SANKO STEAMSHIP, Japanese shipping company that collapsed two years ago, is expected to report pre-tax profits of Y2bn ($15.1m) on sales of Y80bn for the year ended in January. It will be the first pre-tax earnings recorded by the company in nearly a decade. **Page 31**

ROBERT Holmes a Court, Australian investor under pressure since last month's market collapse, has entered into a dual deal with Sydney-based Pioneer Concrete Services that has added A$427m (US$299.8m) to his coffers and enhanced Pioneer's own corporate strength. **Page 31**

Europeans cut interest rates to bolster dollar

BY OUR ECONOMICS AND FOREIGN STAFF

WEST GERMANY and Britain led a concerted round of interest rate cuts by seven European nations yesterday in an attempt to halt the dollar's slide on foreign exchange markets and to restore confidence on world stock markets.

In London, the leading banks lowered their base rates by 0.5 percentage points to 8.5 per cent following a strong signal from the Bank of England.

The reduction, the third since the stock market crash on October 15, took borrowing costs down to their lowest level since March 1984.

The West German Bundesbank cut its key discount rate by the same 0.5 percentage point, with the new rate of 2.5 per cent marking the lowest level seen since the beginning of the country's central banking history in 1876.

The move was described by Mr Gerhard Stoltenberg, West Germany's Finance Minister, as an important contribution to the stabilisation of equity and foreign exchange markets.

It was also a signal of the West German Government's commitment to international co-operation.

Central banks in France, Switzerland, Belgium, the Netherlands and Austria followed the West German lead, reducing their official interest rates by between 0.25 and 0.5 points.

The Bank of England's move came slightly earlier than the West German action but was taken with advance knowledge of the Bundesbank's intentions.

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, emphasised the concerted nature of the interest rate cuts and their contribution to wider international co-operation.

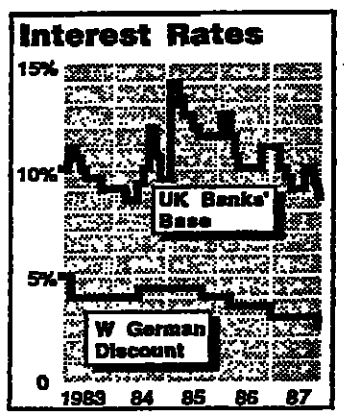
Other European monetary officials were more cautious, however, suggesting that once the Bundesbank had decided to lower its discount rate a more general downward shift was inevitable.

Mr Lawson added that he still hoped for an early meeting of finance ministers of the Group of Seven leading industrial nations. The key element in such a meeting, however, had to be a commitment - above all by the US - to take whatever action was needed to stabilise the dollar.

Yesterday Mr James Baker, the US Treasury Secretary, said the European action represented "an important contribution to our international economic policy co-ordination efforts."

European officials, however, remain uncertain whether the move - along with the budgetary measures announced by West Germany earlier this week - will be enough to persuade the US to give a firm pledge to support the dollar.

In particular, European governments are seeking a commitment from Washington that it will, if necessary, raise interest rates to defend its currency.



Senior officials from the Group of Seven are to hold informal talks in Paris next week on the prospects for a ministerial gathering, but so far the US has indicated that its concern to avoid a recession has priority over dollar stability.

Apart from wider international considerations, yesterday's cut in UK bank base rates was triggered by the Government's concern to hold sterling below its ceiling of DM3.00, and to underpin industrial confidence.

The Bank of England has been forced to intervene repeatedly this week to hold down the pound's value against the D-Mark, while there is official concern that the dollar's weakness could reinforce the impact of the equity price fall in denting business confidence.

Yesterday's cut was welcomed by the Confederation of British Industry which said it would reduce borrowing costs by about £125m ($226.25) over a year.

Mortgage rates, however, were unlikely to fall unless base rates were cut further, lenders said yesterday.

"We would prefer to see if base rates fall further and level off at 8 per cent," Mr John Spalding, chief executive of Halifax, the largest building society, said.

Other societies and banks echoed that view. None expected their competitors to react to a half-point fall in base rates, but stressed that they would move swiftly to cut their own rates if any did so.

The Bundesbank said its decision was especially intended to calm currency markets.

After falling sharply to just over DM1.63 at the beginning of this week, the US dollar later stabilised around DM1.65 following concerted intervention.

However, it is thought the Bundesbank has been just as concerned about exchange rate relationships within the European Monetary System.

The West German Lombard

Continued on Page 28

Japan praised, Page 4; Editorial comment, Page 26; Lex, Page 28; Bonds, Page 32; Currencies, Page 41; London stock exchange, Page 48; World stocks reports, Page 52

Financial markets unimpressed

BY SIMON HOLBERTON IN LONDON AND RODERICK ORAM IN NEW YORK

FINANCIAL markets appeared unimpressed by yesterday's concerted round of interest rate cuts, with the dollar strengthening only slightly, share prices weakening and yields on long-dated government securities rising.

Analysts and dealers said the decision by the Bundesbank to reduce its discount rate ½ percentage point to 2½ per cent had been expected and already [illegible] into the US currency's value.

They said that while interest rate cuts in Europe were generally helpful for the dollar, what the markets needed was a signal from Washington that the Reagan Administration was prepared to support US currency.

Comments by Mr James Baker, the US Treasury Secretary, welcoming the round of interest rate cuts failed to boost confidence. In Europe, the dollar weakened from its high immediately after the rate cuts were announced and in North America, currency markets traded little changed.

City of London economists said the UK Government's decision to lower base rates was seen as unnecessary and risked rekindling inflation. Yields on gilt-edged securities rose - the first time in recent memory that the gilt prices have not benefited from a cut in base rates.

The UK move appeared to be prompted by concerns over the effect sterling's strength against the D-Mark and the dollar would have on British industry. The Bank of England has intervened to stop the pound rising above DM3 every day this week.

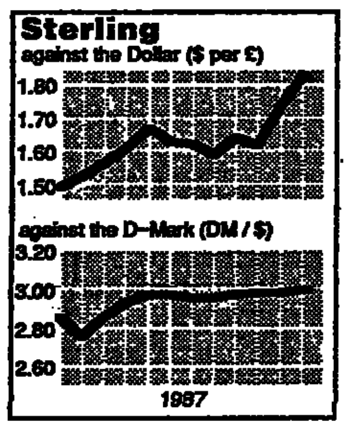
UK equity prices were also lower on the day. The muted reaction of foreign exchange and gilt-edged markets to the reduction in interest rates affected *sentiment in the share market*, although a poor showing by Wall Street at the opening also helped undermine investor confidence.

The FT-SE 100 share index closed 1.9 down at 1,588.4, while the FT Ordinary share index was 3.3 lower at 1,263.6.

In New York, foreign exchange markets responded in muted fashion to the European central bank moves. The dollar jumped about about 2 pfennigs and Y1.5, but soon gave up about one-third of its gains in thin and jittery trading, mainly because the rate cuts had been widely expected.

"We bought dollars on the rumour and sold on the fact," one foreign exchange dealer said.

In turn, stock markets were dragged down by the dollar's reaction and news of somewhat disappoining US department store sales in November, which raised fears of a poor Christmas shopping season in the wake of October's collapse in share prices. The Dow Jones industrial average was down more than 40 points by early afternoon.



Analysts said some of the European interest rate reductions were aimed at preserving the current framework of the European Monetary System. The exchange rate mechanism of the EMS has been put under a lot of strain during recent weeks because of the D-Mark's strength.

The decision by the Bank of France to reduce its money market intervention rate by only ¼ percentage points to 7¾ per cent was aimed at widening interest rate differentials between West Germany and France to support the franc.

In West Germany, the Bundesbank's discount rate cut left bond markets unmoved. Yields on 10-year bonds did not fall on the news of a discount rate reduction - a sign that West German investors were not convinced of the necessity for the rate cut.

The dollar closed in London at DM1.6595 compared with DM1.6525 on Wednesday and at Y132.8 compared with Y132.7 previously.

UK opposed to overseas airline control

BY PETER RIDDELL AND CLAY HARRIS

THE UK Government is strongly opposed to any deal which would give Scandinavian Airlines System effective control of British Caledonian Group because of fears that the US would then seek to renegotiate existing transatlantic airline agreements.

Ministers believe that, if control of BCal passed into non-UK hands, the US would argue that the airline could no longer be regarded as British and there would have to be changes in existing agreements on the allocation of transatlantic routes between airlines.

The Foreign Office has apparently reinforced Whitehall worries about the reopening of such lengthily negotiated deals.

The fear became known as SAS began discussions with the Civil Aviation Authority on a plan slightly revised after Mr Paul Channon, Transport Secretary, said BCal would have lost all route licences under SAS's original proposal. Talks are due to continue today.

Although Lord Young, Trade and Industry Secretary, said yesterday he would not refer a partial offer by SAS for BCal to the Monopolies and Mergers Commission, SAS will not make a bid unless the CAA accepts that BCal will remain under British control.

The Scandinavian airline has now promised to limit its voting interest to less than 30 per cent. It left unchanged, however, its plan to take a 40 per cent equity stake and help to raise £50m ($85m) for BCal through a rights issue and long-term subordinated debt.

In the Commons yesterday, Mr Channon stressed the decision was entirely a matter for the CAA. He would accept its view. He signalled, however, that the role of the three Scandinavian governments which are indirectly part owners of SAS was as important an issue as its effective control of BCal.

Lord Young meanwhile said the proposed link raised no competition or public interest issues.

BCal hopes SAS will launch an offer before next Wednesday, the deadline under takeover rules for BCal's formal response to the full bid from British Airways, which is worth £143m in shares or £119m in cash.

Although BCal, an unquoted company, appears to have tilted in favour of SAS in recent weeks, its main interest is to get a higher offer on the table. Sir Adam Thomson, chairman, has held out for a price close to the £220m cash terms of BA's original bid, which was referred to the Monopolies Commission.

The £200m value implied by SAS comes closer to this and could also prompt BA to raise its own bid. If SAS is blocked or decides not to proceed, however, BCal's only choice will be an unsweetened BA bid.

Investors in Industry, the investment group owned by the Bank of England and UK clearing banks, and BCal's largest shareholder with 41 per cent, welcomed the prospect of having another bid to consider. It said it was certain an SAS link would not involve foreign control.

The Whitehall view, however, is that any likely agreement which would provide sufficient money to rescue BCal would mean that effective control would pass to SAS. This conclusion is seen as applying to the revised SAS proposal.

Mr Helge Lindberg, the Norwegian deputy president of SAS, emphasised yesterday that BCal would have only one, non-executive, Scandinavian director on the board.

He said: "We want to keep BCal British and British-controlled. We want to keep SAS Scandinavian and Scandinavian-controlled."

The ownership role of the Swedish, Danish and Norwegian governments has emerged as a key factor in the UK Government's thinking. SAS is a consortium created by three listed companies, each half owned by the respective government and half by private interests.

Ministers sympathise with the view of Mr Norman Tebbit, the former Trade and Industry Secretary, that, having just privatised British Airways, it would be illogical to allow a foreign public sector airline, with unlimited access to funds, to take control of a British private sector airline.

SAS insists the airline is run strictly on business lines, that it receives no subsidies and that purchasing and borrowing decisions are not influenced by governments.

Anglo-Spanish air accord welcomed

THE agreement between Britain and Spain on the joint use of Gibraltar airport was welcomed in Brussels yesterday and is seen as removing the last obstacle in the way of a landmark deal on cheaper European air fares.

Spain's dramatic and unexpected refusal to sanction the airline reforms because of Gibraltar was not the only hiccup in two-and-a-half years of painstaking negotiations and the relief in Brussels, if all goes according to plan, will be audible. Page 3

Bonn bars N Korea submarine deal after complaints from US

BY DAVID MARSH IN BONN

THE WEST GERMAN Government has blocked the sale of a sophisticated miniature submarine to North Korea, officials said here yesterday. The ban followed high-level complaints from the US Administration that the boat, although earmarked for civilian offshore inspection and prospection work, could be used for military or espionage purposes.

The affair, which has been handled in great discretion, has threatened to irritate relations between Bonn and Washington over the past few months.

It highlights US efforts to improve enforcement of East-West trade controls in the wake of controversy over the transfer *of sensitive technology to the* Soviet bloc by Toshiba of Japan and Kongsberg of Norway.

The episode also underlines Washington's sensitivities about the strategic vulnerability of South Korea. The US appears to fear that the submarine could be used to smuggle North Korean agents into South Korea.

The halting of the deal comes as some elements in the West German Government in recent months have been expressing cautious criticism of US efforts to tighten up operation of CoCom, the Paris-based organisation which examines Western sales to the East bloc.

The four-man submarine, worth DM6m (about $3.63m), was due to have been exported last month by Bruker Meerestechnik, a small specialist underwater technology company based in Karlsruhe in south-western Germany. Delivery was scheduled to take place via Shanghai under a contract signed in May 1985.

But the West German Economics Ministry effectively stopped the sale by overturning in October its original ruling that the deal did not need a government export licence. Officials said yesterday that export approval would almost certainly not be granted.

Bruker Meerestechnik said yesterday it already had been forced to repay a down-payment from the North Korean purchaser, the Daehung Shipping Company.

However, it was also preparing to submit a claim for damages from the West German Government. Counting the lost order and a potential follow-up contract which would now also be cancelled, the total damages could amount to up to double the value of the DM6m order, Mr Joerg Haas, the general manager of Bruker Meerestechnik said. The company, which employs 40 people, has annual turnover of about DM5m.

He said the submarine was an underwater observation vessel that was "technically impossible" to adapt for purposes such as infiltrating secret agents. Mr Haas said that the vessel, able to remain submerged for 8-to-8½ hours and driven by batteries and diesel, did not use any strategically-sensitive engine technology.

Commenting on Western technology-control efforts, Mr Haas said: "I have full understanding that we should not give potential enemies a knife in the hand. But this is quite a different category. *From such a big and powerful* country as the US, this is an over-reaction."

The submarine, about 47 feet (14 metres) long and weighing just under 50 tonnes, was designed for use in North Korea's offshore land reclamation programme as well as for minerals and hydrocarbons prospection.

Bruker Meerestechnik had already, in 1983, delivered a similar vessel to North Korea in a contract allowed to go through by West Germany without any export licence.

CONTENTS

SENATE BATTLE LOOMING ON THE INF DEAL

Senator Sam Nunn, Armed Services Committee chairman, will play crucial role in the debate, Page 4

William Dawkins looks at the implications of the advocate general's declaration on VAT

European Court puts Thatcher poll pledges at risk

BRITAIN'S Conservative Government could well be forced to revise one or two election promises as a result of a preliminary legal opinion given on value added tax in Luxembourg earlier this week.

The pronouncement was made by Mr Marco Darmon, French advocate general in the European Court of Justice, the highest legal power in the European Community. It comes in response to a legal action by the European Commission, the EC's equivalent of a civil service, claiming that Britain and Ireland allow VAT zero rating for a much wider range of goods and services than Community law allows. This distorts competition and undermines the Commission's drive to reduce disparities between differing national VAT rates, Brussels argues.

Mr Darmon said Britain has no right under EC law to allow exemption for VAT on a disparate range of goods and services including - among other things - new industrial and commercial buildings, and fuel, power, sewerage and water as supplied to businesses.

If the Court upholds Mr Darmon's opinion when it delivers its final judgment next spring, Mrs Margaret Thatcher, the UK Prime Minister, could well find herself in the embarrassing position of being forced to go back on her promises before this year's election never to impose VAT on gas and electricity. The impact on industry would at best be inconvenient, at worst - depending on individual companies' scope for reclaiming VAT - very costly.

She can at least breathe a sigh of relief that Mr Darmon's preliminary opinion supported the UK's right to zero rate new private houses, a central plank of the Conservatives' drive for wider home ownership. The advocate general also gave his approval to British VAT exemptions for animal feed, seeds for food crops and livestock for meat.

This is not the first time the Court's purely legal duties have plunged it into political controversy. As the final upholder of the Treaty of Rome, the source of EC law, it often has to go against national laws, over which the European Court's decisions take precedence.

That said, the real outcome of the VAT case is far from clear. For one thing, the full Court's judgment does not always follow the advocate general's opinion, though this is very often the case. For another, Britain and Ireland have the option of taking no notice of the Court's eventual ruling. It would then be up to the Commission to mount a fresh legal attack on London and Dublin for failing to enact EC law, and that could take a year or more to reach a conclusion in the overworked European Court. As it is, the present case was opened in December 1985.

Even if Britain eventually lost the battle, it would be entirely up to the Government to decide what rates of VAT to charge. As it is, VAT rates levied across the Community vary from 1 per cent to 38 per cent depending on the product and country involved. In theory, this would allow the UK to continue to give special tax treatment to the sectors under threat in the current case, though the Government has given no clue as to its intentions.

One thing it has made clear, however. The UK will fight to the hilt the Commission's separate bid for new EC legislation to bring differing VAT rates more into line, a scheme which Brussels holds as fundamental to its drive to create a fully free internal market by 1992. If the package, devised by Lord Cockfield, the Internal Market Commissioner, was adopted by member states, Britain and Ireland's entire system of zero rating would go. That means VAT would be charged on food and children's clothes and shoes - another thing Mrs Thatcher promised during the election would not happen.

The Cockfield package has been greeted unenthusiastically by most member states. Britain, the toughest critic of the proposals, claims the Court case is a sly attempt by the Commission to undermine opposition to the scheme.

Brussels argues that it is just seeking clarification of existing EC tax rules and that it cannot be right for Britain to charge VAT on just 44 per cent of private spending, when most other member states levy VAT on 90 per cent of consumption. The legal point at stake is that the sixth VAT directive, which lays down the rules for exemptions, only *allows zero rating for clear social reasons* and where the final consumer benefits. Those are the criteria the Court will use in its final judgment.

Lucrative air services to West Berlin lure large US airlines

BY LESLIE COLITT IN BERLIN

THE Western Allied air corridors over East Germany to West Berlin, until now largely the lucrative preserve of Pan Am and British Airways, are attracting major US airlines *with* the lure of hard D-Mark profits.

American Airlines is to announce *plans* today to begin regular service between West Berlin and big West German cities next March. TWA said last month it would launch an inner-German service between West Berlin and Frankfurt, Munich, Hamburg and Stuttgart with low introduction fares. Both plans, however, hinge on approval by the British, French and US air attaches in Bonn who regulate air traffic between West Berlin and West Germany.

In the face of the new competition Pan Am and BA said yesterday they would terminate their 1975 agreement exchanging routes between West Berlin and several West German cities. TWA had called the West Berlin-Frankfurt route flown by Pan Am the "biggest monopoly in the Western world."

A spokesman for BA in Berlin, Mr Bernd Wietfeld, said it had applied to the West German Air Traffic Co-ordinator for four round trip flights daily between West Berlin and Munich and Frankfurt, both served by Pan Am until now.

Pan Am said it had applied to fly to Duesseldorf, Cologne and Hanover, which are served by BA.

Mr Wietfeld predicted that if TWA and American Airlines entered the air corridors the situation would become "cut-throat". TWA put its foot in the door last August by starting a service between West Berlin and Brussels. Some airline sources believed it was aiming to pick up routes to Eastern Europe, similar to Pan Am's, in order to feed *them into the US via Frankfurt*.

Yet another US airline, Continental, was rumoured to be considering entering the West Berlin air market which this year will carry 4m passengers. Neither Pan Am or BA disclose financial details of their inner German service except to say that it is profitable.

Although the West Berlin city government has long complained about *the quality of service pro*vided by the two Allied carriers, it is now worried about the noise and capacity *problems would* would arise with a doubling of departures and landings at Tegel Airport. Some traffic would have to be shifted back to Tempelhof which previously served West Berlin.

The key to the air corridors is held by the three air attaches who may decide that in West Berlin's case too much competition may be a bad thing. Ironically, *President Ronald Reagan* received wide praise last June in West Berlin for a speech in which he called for "expanding" air access to West Berlin by making it more convenient, more comfortable and more economical.

Pauls Betts reports on the exclusive gastronomic trade association formed by top French chefs to improve the quality and variety of the nation's haute *cuisine* and boost its share of the world restaurant market

European Diary

France

Export pains of the 'stomach of Europe'

FRANCE AND haute cuisine have long been synonymous, but the country has so far dismally failed to exploit abroad its reputation as the "stomach of Europe."

At least that is the opinion of the country's 50 leading chefs, who have teamed up with the scientists of Inra, the French *national agricultural research* institute, to try to improve the quality and variety of French cooking.

"Everybody thinks of France as the world gastronomic leader. But the statistics show that 35 per cent of the restaurants in the world are Chinese, 30 per cent are Italian and only 5 per cent are French," says Mr Jacques Poly, the president of Inra.

This has serious economic implications for French food and drink exports, adds another official of the institute. "All those Italian and Chinese restaurants all round the world have inevitably helped the penetration of their country's respective food and drink products on foreign markets. Look at how many Italian products you find in any *pizzeria* in Paris, New York, or London," he explained.

To promote the art of French gastronomy and protect their interests, the country's 50 top chefs - all with three or two Michelin stars - last year formed an exclusive trade association called the *Chambre Syndicale de la Haute Cuisine Francaise*.

Many chefs, for example, have been lobbying for the introduction of a copyright system to protect the dishes they create. They do not see why authors can safeguard their intellectual property and chefs cannot protect their *crepes suzettes* or *boeuf en croute*.

Joint initiative

But the cooks have also become increasingly worried by the decline in the quality of the products they need for their culinary *chefs d'oeuvres* as well as by the inroads of other rival cuisines on the world gastronomic market. Hence their decision to team up with the researchers of Inra to try to enhance the quality and image of French gastronomy.

To launch their joint initiative, the chefs and Inra last week invited 370 gourmets, including Mr Francois Leotard, the French culture minister, and Mr Hubert Curien, the former research minister, for a huge feast in the Pre Catalan, one of the more distinguished and expensive Parisian restaurants in the Bois de Boulogne, to test the first products of their collaboration.

Inra has been experimenting for some time with traditional and new food products to expand and enhance the range of French agricultural production. Some of the fruits of this research were on display at the Pre Catalan, including a new red variety of chicory to give a touch of colour to a salad, parsley with particularly large roots and Cape gooseberries, also known as Peruvian cherries, which are now grown in France.

"Our aim is to diversify as much as possible French agricultural products with new varieties, but also rediscovering ancient fruits and vegetables that have gone out of fashion," explained an Inra official.

"What we really are looking for is also high quality fresh products for our dishes. It has become more and more difficult to find such products," added Mr Gerard Cagna, who runs a two star restaurant called Relais Sainte Jeanne outside Paris on the road to Dieppe.

One such product is the snail. Although the small gastropod remains a firm favourite in France, an increasing number of French restaurants have dropped the *escargot* from their menus because they often cannot find good quality fresh snails for their customers.

Insufficient snails

The French eat an average of 600 to 800 grams of snails a year, according to Inra statistics. But because France no longer produces sufficient snails to satisfy demand, it has to import 6,500 tonnes every year, producing a trade deficit of FFr192m (£18.8m). All these imported snails arrive frozen without their shells.

Inra has thus been conducting research to develop a new smaller variety of snail called *petits gris* to satisfy the quality requirements of the country's chefs and the palates of consumers.

A delicious mixture of snails, cabbage and mushrooms, including the Oriental *skii-take* now also grown in France, was served up at the Pre Catalan dinner after some domestic smoked trout - the French consume about 30,000 tonnes of smoked trout and salmon a year.

The other problem of French haute cuisine is its cost. Although all the chefs claim that the costs of running a top restaurant and using only "noble" products in every receipe are exorbitant, prices of top French restaurants have moved out of the reach of most ordinary mortals. This is true not only in France but also abroad, where often the quality does not match the quality in France.

"This largely explains why French restaurants have been overtaken by the Italians and Chinese abroad. I don't see why the French can't export their cheaper and generally excellent bistro-type cuisine better abroad, just like the pizza houses, the Chinese restaurants and the MacDonalds have invaded our country," remarked the wife of one of the chefs at this week's gastronomic gathering.

Time runs out in Vienna for MBFR negotiations

BY JUDY DEMPSEY IN VIENNA

THE mutual and balanced force reduction talks (MBFR) which have been taking place in Vienna for the past 14 years to consider ways of cutting conventional forces in Central Europe are so deadlocked that agreement no longer seems possible.

Mr Jan Hein van de Mortel, head of the Dutch delegation here, said yesterday that the Warsaw Pact, which in the process *of trying* to extricate itself from the talks, is blaming the West for changing the nature and substance of the negotiations.

"The East, probably anticipating a negative Western reaction to its attempt to resurrect the concept of a simplified 'token' agreement, is at present looking for alternative ways out of the uncomfortable position in which it finds itself," said Mr van de Mortel.

One of the principal sticking points which has hampered progress for the past several years concerns verification. Nato wants verification on residual force levels which the Warsaw Pact has so far rejected.

However, verification is not the only major stumbling block. The MBFR talks are taking place at a time when all the Nato and Warsaw Pact countries are holding informal meetings in Vienna to look at new ways of reducing conventional forces throughout Europe.

These meetings, known as the "conventional stability" talks, are taking place within the framework of the Conference on Security and Co-operation in Europe.

In sharp contrast to the MBFR talks, Nato and the Warsaw Pact are making steady progress. To some observers, it seems ironic that the verification issue has posed few problems in the "conventional stability" meetings.

Diplomats from both sides attending them agree that sooner or later, the new forum will replace the MBFR talks. "We obviously have differences and difficulties concerning the scope and objectives of the new talks," a Western diplomat said. "But really, it is just a matter of time before we get a mandate from the CSCE *for a new conventional* arms forum and then we have to think about what happens to MBFR."

FINANCIAL TIMES

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Gibraltar has veto over airport agreement

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

GIBRALTAR WILL have an effective veto over the Anglo-Spanish agreement on the joint use of the Rock's airport, but it will not be able to block the implementation of the European Community's new air transport directive.

Sir Geoffrey Howe, the Foreign Secretary, who concluded the agreement with his Spanish opposite number, Mr Francisco Fernandez Ordonez, in London early yesterday, made it clear that it was up to the Gibraltarians to decide whether they accepted the accord.

If they did not, then the airport agreement, under which Spaniards would be able to use their own terminal on the Spanish side of the frontier fence without passing through British immigration and customs, and the long-suspended ferry service between Gibraltar and Algeciras would be resumed, would not come into effect. At the same time, Gibraltar would be excluded from the European air transport arrangements.

Spain has agreed not to block the European airline deregulation directive, providing for cheaper fares within the EC, even if Gibraltar rejects the Anglo-Spanish agreement on the use of the airport. The directive is expected to be approved by transport ministers in Brussels next Monday.

Sir Geoffrey urged Gibraltarians yesterday to see the advantages of the agreement. "It offers the prospect of Gibraltar taking part in this great liberalisation of European air transport," he said in a radio interview. Many more airlines would be operating with cheaper fares and there would be the opportunity for people to fly in and out of Gibraltar from other parts of Europe to the advantage and benefit of Gibraltar tourist and airline operators and the prosperity of the Rock as a whole.

British officials feel that the whole question of joint use of the airport, even though it does not involve any Spanish participation in its administration, has become very much an election issue in Gibraltar. It is recognised in London that no Gibraltarian politician is likely to commit himself on the airport deal until the general election, due early next year, is over.

The agreement prejudices neither the British nor Spanish legal position on sovereignty over Gibraltar. However, British officials have been at pains to point out that it does not satisfy the original Spanish demand for joint Anglo-Spanish control of airport.

Apart from the main provision on the direct access to the airport of passengers from the Spanish side of the border, the agreement also provides for continued discussions on air safety and traffic control arrangements in the area and co-operation on security measures at the airport.

Chorus of condemnation from the Rock

BY JOE GARCIA IN GIBRALTAR

GIBRALTAR appears poised to block the airport deal. Both Sir Joshua Hassan, the Chief Minister, and Mr Joe Bossano, the leader of the opposition, have reacted strongly against it.

On his return from London, Sir Joshua said he would not implement legislation to set the deal in motion. This legislation is essential to allow passengers using the planned Spanish terminal to be exempt from Gibraltar's customs and immigration controls. The deal would come into operation when the British authorities have notified Spain that the legislation is in force.

The deal struck with Spain goes against a motion passed unanimously in the House of Assembly and also against popular feeling in the colony. Sir Joshua described the accord as "an ingenious piece of diplomatic achievement that doesn't give anything to anybody and everybody is happy." He agreed with Mr Bossano that the price Gibraltar could be paying was exclusion from the EC air liberalisation package.

Mr Bossano said: "If we allow Spain to get the level of penetration into the use of the airfield as provided in the agreement, they would have us by the neck."

Gibraltar leaders have been attaching much importance to the opportunity given by Sir Geoffrey Howe for the colony to make a "democratic choice and to decide whether or not they wish to benefit from the aviation agreement as well as from the air transport directive." It is seen as the right to veto the airport deal.

They also believe that the building by Spain of a second terminal on the periphery of the frontier fence, to handle all Spain-bound traffic, will mean that Gibraltar will not benefit from the upsurge in flights that could accrue from the deal. The deal has been warmly welcomed by the authorities of the Spanish hinterland, as it opens up new economic opportunities for the depressed Campo area.

Gibraltarians are also opposed to Spain having a say in the affairs of the airport and international flights being allowed to use the proposed new terminal.

Political sources in Gibraltar pointed to the prospect of an election early next year deciding the issue. On present thinking, both parties would be campaigning on an anti-airport ticket.

EC airline agreement cleared for take-off

BY TIM DICKSON IN BRUSSELS

THE AGREEMENT between Britain and Spain on the joint use of Gibraltar airport was warmly welcomed in Brussels yesterday and is widely seen as removing the last obstacle in the way of a landmark deal on cheaper European air fares.

The European Commission, whose proposals for greater competition among airlines were blocked by Spain last June after a furious last-minute diplomatic row about the status of the Rock, said that yesterday's Anglo-Spanish accord "will clearly pave the way for adoption of the aviation package at Monday's Transport Council". According to one senior official, the only major issue will be the date on which a deal should come into force.

Spain's dramatic and unexpected refusal to sanction the airline reforms because of Gibraltar was not the only hiccup in two and a half years of painstaking negotiations and the relief in Brussels, if all goes according to plan next week, will be audible.

The Commission's original proposals to give airlines more freedom to fix discount fares, improve market shares, and encourage more carriers on established routes were strongly opposed by a majority of member states and were significantly watered down in a succession of subsequent compromises. To a large extent this was inevitable given that the reforms required unanimous approval of all 12 countries in the EC. But the truth is that substantial benefits for airline passengers are unlikely to accrue until more radical changes have been embraced.

The package which will be re-submitted on Monday, for example, does not remove the cosy bilateral government-to-government agreements which enable the airlines to share capacity and revenues in a blatantly anti-competitive way. It acknowledges their existence but, under the proposed rules, a government will only be able to intervene if the market share of its airlines falls below 45 per cent (of all routes), compared with the 50-50 arrangements which are not uncommon at the moment. This would drop to 40 per cent in the third year after a deal.

In theory, at least, competitive airlines will be able to reduce fares as they increase traffic but the measures on the table will also limit the power of governments to block new discount fares. One innovation, for example, will be to allow cheap fares on off-peak flights without the Saturday night "stay over" condition but with a 20-50 per cent cancellation charge. Moreover, about two thirds of existing cheap fares, according to the Commission, could be reduced by an extra 10 or 20 per cent.

The part of the package on "market access" makes it possible for the introduction of new services on the busiest routes - though most airports in Greece and Denmark, and some in Italy and Spain, have been exempted for three years - while the proposed rules are designed to remove many of the limitations on flights between regional airports and the "hubs" like Heathrow and Charles de Gaulle.

Under the Single European Act, the reform to the Treaty of Rome introduced on July 1, voting at next week's Transport Council will be on the basis of a qualified majority. That, in itself, should ensure that the package is not disrupted again by last-minute waverers, but another powerful incentive lies in the separate legal action against nine big airlines being threatened by the Commission under Article 89 of the Treaty..

A decision to proceed against national carriers including British Airways, Lufthansa and Air France is expected to made at the Commission's weekly meeting next Wednesday. But because of the "block exemptions" from the EC's competition rules that accompany the proposed reforms, the Commission will only be able to challenge a narrower range of allegedly anti-competitive capacity and fare-fixing deals.

Spanish parties back deal

By David White in Madrid

THE AIRPORT agreement enabled Mr Felipe Gonzalez, Spain's Prime Minister, to fly to the European Community summit yesterday without the embarrassment of having to carry with him the threat of again blocking the EC's air liberalisation package at the Transport Council next Monday.

At the same time, Britain's "concessions" on the use of a new Spanish terminal and the reference in the agreement to Spain's sovereignty claim over the isthmus where the airport is located were sufficient to gain backing from the main opposition parties in Parliament.

A spokesman for the right-wing Alianza Popular welcomed the agreement as "evidently a diplomatic success" and a first step in negotiating sovereignty over the Rock.

Other parties from the centre-right to the Communists also approved the deal, although the small Christian Democrat PDP party said it was long overdue and blamed the government for its "previous lack of foresight."

Madrid has all along seen the airport negotiation as a political one, in which the symbolic importance of joint use is much greater than its practical interest in the facility from an air transport point of view. Southern Spain has three other civilian airports within 100 miles of Gibraltar, at Malaga, Seville and Jerez.

EC agrees measures to cut car pollution

By William Dawkins in Brussels

THE European Community yesterday reached a long-awaited accord on cutting pollution from car exhausts, thereby putting an end to three years of uncertainty for car producers.

A meeting of EC environment ministers gave the go-ahead to the plan, which should reduce emissions of exhaust gases by more than half, to take place in phases between next October and 1993. The agreement, however, is a disappointment for environmental groups, which wanted the Community to follow the much tougher US limits.

Environmentally sensitive Denmark allowed itself to be outvoted yesterday and plans to invoke a clause in the six-month-old Single European Act allowing it to impose tougher national controls on health grounds.

It can only do so if Copenhagen can persuade the European Commission and its EC partners that tougher Danish car exhaust standards will not hinder free trade, an argument which will raise more controversy in Brussels. Greece also voted against the scheme on the grounds that it could only lend support if it gets EC cash - which the Commission will not give - to help cut pollution in Athens.

Complying with the measures will involve car manufacturers in enormous retooling costs. Much of these are expected to be passed on to consumers, who will on average pay 5 per cent more for new cars, estimates the Commission. That ranges from £350-£400 for fitting three-way catalysts to larger (two litre up) cars, to around £50 for the extra cost of building lean-burn engines for the smallest models.

National officials from Britain, France, Italy and Spain are working together to ensure that they implement the directive at the same time.

Lord Belstead, the UK Environment Minister, said this would be done "as soon as is practicable, probably in the early 1990s." West Germany is expected to put the standards into effect as soon as possible, though there are doubts over whether Bonn can implement the necessary national legislation fast enough to start setting the first of the new standards next October, as envisaged in the directive.

Brussels to probe FFr500m state loan for Peugeot

BY PAUL BETTS IN PARIS

A FFr500m(£50m) loan granted by the now disbanded French government industrial modernisation fund to Peugeot, the private French car group, is to be investigated by the European Commission.

Peugeot received the loan last year from the special fund, set up by the former French Socialist administration, which has been discontinued by the right-wing government of Mr Jacques Chirac. It was granted for the modernisation of Peugeot's Citroen car plant at Aulnay, near Paris, where the Citroen AX mini is produced.

As in other similar cases involving possible breaches in EEC competition rules, the Commission wants to ensure that Peugeot has not benefited from unfair government subsidies. The loan in question involved interest at 8.25 per cent compared with the normal market rate of 9.75 per cent.

The Commission is already looking into about FFr1.2bn worth of loans advanced to Peugeot by the French industrial modernisation fund between 1983 and 1985.

The latest inquiry also coincides with an investigation by Brussels in the French Government's plans to write off FFr12bn worth of debts at Renault as part of a major balance sheet restructuring of the state car group.

EC row looms over new fishing limits agreement

BY TIM DICKSON IN BRUSSELS

A FIERCE battle between Fisheries Ministers of the European Community is looming following last night's agreement in Brussels on new catch limits for next year.

The proposals put forward by the European Commission include sharp cuts in quotas for a number of species like North Sea herring and Western mackerel, but the package is balanced by more generous allowances elsewhere.

A senior Commission official explained last night that the broad aim was to produce the same amount of fishing for the Community fleet in terms of man hours as had been allowed for 1987.

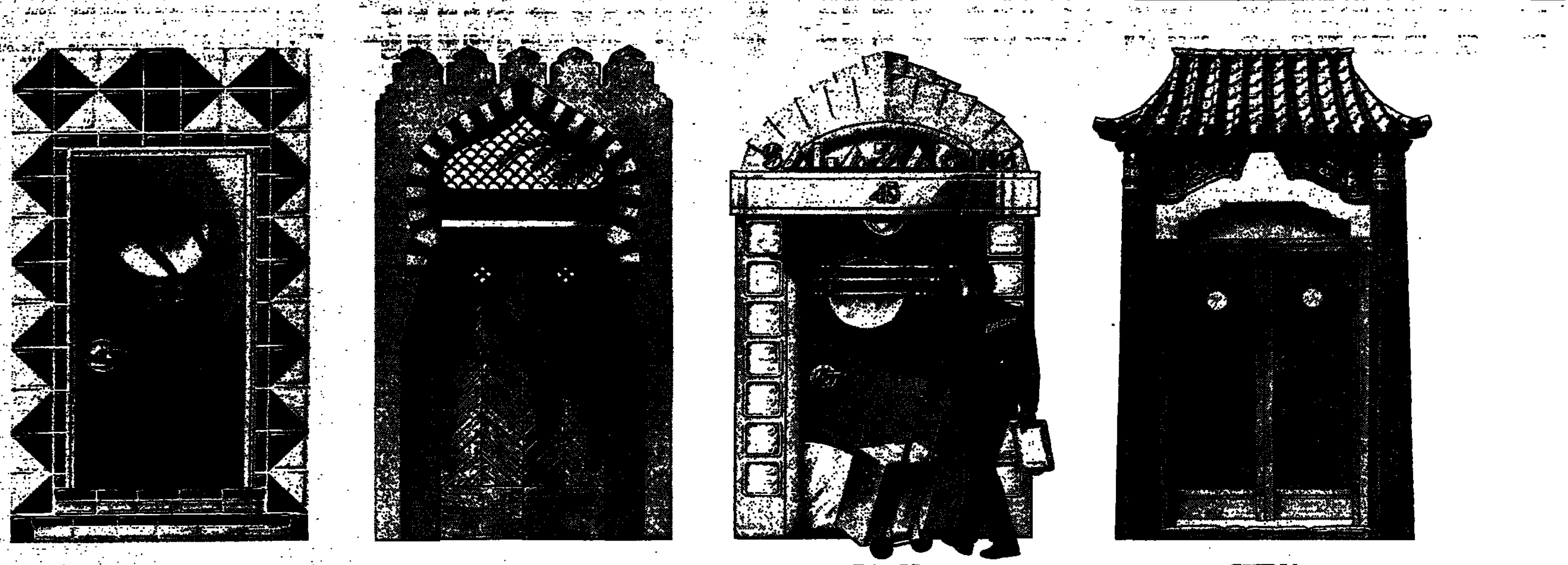
Negotiations over the quotas and so-called Total Annual Catches (TACs) set out in the Common Fisheries Policy are notoriously sensitive, even if the numbers are to some extent determined by global deals that have already been agreed by the Commission with non-EC countries, and despite the fact that the share out of available fish between individual member states is no longer a major issue. That is worked out on the basis of a formula which was agreed before Spain and Portugal joined the EC at the beginning of last year.

The EC's Fisheries Ministers are certain to try to increase the overall TACs for certain species, which have been framed by the Commission on the basis of the latest scientific advice. Scientists, however, conveniently provide a range of options which in turn allow the politicians a certain flexibility in their deliberations and yet enable them to claim that they are not acting irresponsibly if they ultimately exceed the Commission's figures.

If conservationist factors alone were taken into consideration, the Commission's proposals would almost certainly be as tough as they were last year. Experts in Brussels believe that the combination of high TACs and overfishing have dangerously thinned out certain species.

The Commissioners and their officials, though, appear to have accepted the political and social realities which influence EC fisheries policy and which prompted Ministers this time a year ago significantly to increase allowable catches in certain cases.

They have taken into account the fact that the European fleet still suffers from severe structural overcapacity, notably in the Netherlands and Spain and to a lesser extent in Denmark and Ireland, and that change cannot be too abrupt.



OVERSEAS NEWS

Pakistani troop contract with Saudis expires

BY JOAN WUCHER KING

THE OFFICIAL Saudi Press Agency announced on Wednesday that Pakistani troops serving in Saudi Arabia would be returning to Pakistan. The agency stressed the return came at the expiry of a government-to-government contract and that Pakistani troops were engaged in military and technical training.

The agency was answering earlier Western press reports describing the withdrawal as a reaction to Pakistani fears that its soldiers might become involved in clashes betweeen Iran and Saudi Arabia.

Both countries were said to be alert to the possibility of Iranian influence on their Shia minority populations. A specific Saudi concern with the sentiments of Shia Pakistani troops in the Kingdom was also identified, together with the key defensive role of a Pakistani elite tank brigade.

Discussions on troop withdrawals were held on Wednesday between King Fahd and Mr Mohammad Khan Junejo, the Pakistani Prime Minister, who is on a visit. No details were available on the outcome but the withdrawal decision appears to have been made jointly.

Pakistani soldiers, believed to number about 10,000, have formed an important part of the Saudi military for about ten years, serving in the army, navy and air force. Their presence reflects longstanding close ties between the two governments. Saudi Arabia has contributed large amounts of foreign aid to Pakistan, and the Pakistani government in turn supports Riyad's international and regional initiatives.

Pakistanis form the largest expatriate population in Saudi Arabia after the Yemenis; there are believed to be over 450,000 living and working in the Kingdom in a wide range of occupations.

However Pakistan shares a long border with Iran, and its minority Shia population have become more politicised of late. Disturbances this year in Pakistan over the Afghan refugee situation, and unease in some political circles with the extent of Islamabad's identification with US and Saudi support of Afghani rebels, have not as yet spilled over into a redirection of Islamabad's foreign policy.

Replacing the Pakistani soldiers will not be difficult. Saudi Arabian military delegations have visited Bangladesh in the past year and have been in contact with Morocco. Restoration of military links with Egypt may provide another manpower source. But in the ten years which have elapsed since the arrival of Pakistani troops, Saudi Arabia's own military manpower development might enable it to curtail its dependence on foreign troop support.

Iran readies for onslaught against Iraq

IRAN CONDUCTED war games on Wednesday using 100,000 volunteers as Iranian President Ali Khamenei described victory prospects in a forthcoming offensive against Iraq as "brighter than ever", Joan Wucher King reports. The official Islamic Republic News Agency reported a speech by Khamenei threatening "continuous blows" against Iraq "in coming days".

Western military analysts confirm an Iranian build-up of about 250,000 troops in the border region. US officials believe an offensive is unlikely before January, and have doubts about troop quality. Scepticism is high about Iran's ability to penetrate Iraqi lines. Defences around Basra, target of last year's Iranian offensive have been enhanced. An Iraqi military spokeman claimed in Baghdad this week that Iran's plans are "the last kick of a dying mule".

The recent upsurge in Iranian air activity and the announcement yesterday that Tehran had developed a surface-to-surface missile ready for deployment, indicate Iran may have overcome the air defence problems which compromised its last offensive in January. However Iraq maintains massive superiority in armour and equipment.

On Tuesday Tehran announced the dispatch of additional "tens of thousands" of militia, to the front.

Yesterday Lloyd's confirmed Wednesday's Iraqi strike on the 259,447 ton Cypriot-flagged Anaz.

Nicholas Woodsworth looks at a crisis of confidence in the Ivory Coast

Black Africa's economic beacon falters

FOR MORE than 25 years, the Ivory coast enjoyed a unique relationship of confidence with the West. Since independence most black African countries have drifted ever further from workable solutions to their problems. The Ivory coast on the other hand has forged ahead under the close supervision of France, its former colonial ruler, to create one of the most productive economies in the Third World.

A beacon of light in an otherwise dark continent, the Ivory coast has long been extolled by the West as a model of Third World development based on cooperation and mutual benefit.

That special relationship of trust is now seriously under question by both partners. This is not because of any significant change of policy on the part of Western financial institutions or the Ivory Coast leadership - in the past the relationship has been too profitable for either to want a change. The source of the problem is a disequilibrium which reflects economic trends worldwide.

With the dramatic and prolonged slide in prices of commodities, on which the Ivory coast depends for its survival - cocoa and coffee alone account for 60 per cent of its export earnings - neither partner is able to guarantee what was once taken for granted. The West no longer provides the Ivory Coast with the commodity revenues it needs for sustained growth and the Ivory coast is unable to pay back the money once so confidently loaned to it.

Moratorium

Six months ago Ivory Coast dismayed creditors by announcing a moratorium on repayment of its $8.4bn (£4.6bn) debt. In October Mr Edward Jaycox, vice-president of the World Bank's African operations, went some way towards resolving the problem by announcing that agreement on debt repayments and fresh credit would be forthcoming before the year's end.

Nevertheless the unquestioned confidence of the last quarter century has gone and the Ivory coast stands at a watershed in its history. If the relation is to continue on the same path, changes seem inevitable. The Ivory coast as a junior partner - and what has always in reality been a relationship of dependence - will inevitably be the one called upon to make those changes.

Following the announcement last month that the World Bank and the Ivory Coast had come to agreement on rescheduling its portion of the country's $8.4bn debt, there were long sighs of relief in the offices and corridors of the Finance Ministry.

Not only had World Bank officials declared themselves confident that formal rescheduling agreements involving the IMF and the Paris and London Clubs would be forthcoming before the new year, they also announced the release of a $150m structural adjustment loan to bridge the country's balance of payments deficit, estimated at CFA Fr200bn.

The IMF, too, then showed itself willing to bridge the Ivory Coast's financing gap. Financial sources in Abidjan report that the Fund is ready to provide both an SDR80m compensatory financing facility and a fresh standby loan.

It is not plain sailing ahead, however. While the Ivory Coast with renewed borrowings may indeed be able to buy the breathing space its economy requires, creditors for their part will expect certain changes in the economy. Given that the Ivory Coast is willing to initiate change, a series of questions remains as to its ablity to do so.

One immediate consequence of further lending will certainly be increased austerity measures implemented through government spending cuts and increased taxation. Following pressure from the IMF, Ivory Coast agreed last August to introduce value-added tax to the wholesale and retail trades. It will also raise duties on imported goods, as well as increasing tobacco taxes and stamp duties. Other measures include the abolition of ad hoc corporate tax concessions and rises in alcohol and automobile taxes.

None of these measures will increase the popularity of a Government already accused of too much belt-tighening. Other IMF demands will hit the wallet still harder. These include increases in income taxes, limits on family allowances, and - while no mention has been made of price controls - freezes on 1988 public service salaries. Strict limits to government hiring have also been demanded.

Diversification

It is in the field of industrial diversification that the international agencies would most like to see new money invested. The United Nations Industrial Development Organization (Unido) is shortly to present a long-term development strategy which will outline three main areas of concentration in this domain

Living in relative economic prosperity and under a rigid one-party system, the people of the Ivory Coast have in the past left government largely to itself. Inevitably, however, further lending will produce still more draconian demands for austerity and serious consequences for the Ivory Coast standard of living. Whether the Government in the future will continue to be able to rely on an acquiescent, unpoliticised population remains to be seen.

Japan wins IMF praise for growth

By Ian Rodger in Tokyo

JAPAN has won high praise from the International Monetary Fund for its efforts to stimulate its economy and contribute to the growth of the world economy.

"Japan is behaving very well. I think policy makers here have every reason to be satisfied, and we have every reason to congratulate them," said Mr Michel Camdessus, IMF managing director, at a press conference in Tokyo yesterday.

"Our recommendations for economic policy in Japan in the very short term are very simple: please maintain your economy on its present course of sustained non-inflationary growth," he said.

IMF hopeful of funds for poor

THE International Monetary Fund is still hopeful that it will succeed in raising an additional SDR6bn for its Structural Adjustment Facility (SAF) for the world's poorest countries, writes **Ian Rodger in Tokyo.**

"I have a good hope of getting the amount before the end of the year," Mr Michel Camdessus, IMF managing director, said at a press conference yesterday.

The idea of increasing the SAF by SDR6bn (about $8bn) by the end of this year was approved by the leaders of the seven leading industrialised countries at the Venice summit last June.

Israel slams EC over Palestinian trade

BY ANDREW WHITLEY IN JERUSALEM

A FURIOUS public row has erupted between Israel and the European Community, with accusations flying in both directions of illegal conduct, blackmail and bad faith over previously agreed understandings.

Last night, a senior Israeli official lashed out at Mr Claude Cheysson, the European Commissioner, accusing him of acting like a Roman Pro-Consul, "arriving in Judea and Samaria and telling the Jews what to do".

Britain was also on the receiving end ofthe deep anger felt in government circles over its action in Brussels three weeks ago in blocking the passage of a draft trade protocol between the EC and Israel.

The action reflected "a colonialist approach to international relations" and amounted to "blackmail" against Israel, said the official.

On Tuesday, during a visit to neighbouring Jordan, Mr Cheysson had dramatically raised the temperature in the simmering dispute - primarily over the access of Palestinian agricultural exports to the Community - with a forthright ultimatum to Israel.

"The Israelis know very clearly that if they refuse what we demand, and we will accept nothing short of it, their relations with the Community will be at a breaking point," he said in Amman.

There would be "no new protocol, no nothing. They are in a completely illegal situation."

Deadlocked over the central issue of free access for Palestinian farmers to the Community, senior officials from EC member countries are due to meet again in Brussels next Monday to address this question and also the now inextricably linked issue of the new Israeli trade protocol - an appendix to the original 1975 treaty. But the auguries are not good for an early resolution of the crisis.

The hackles of the nationalist-minded Shamir Government appear to have been raised in particular by what is regarded here as a high-handed attempt by Brussels to interfere politically in the question of the Israeli-occupied West Bank Gaza Strip region.

Accusing the Commission of caring little for the economic wellbeing of the Palestinians in the occupied territories, the senior official said yesterday: "If anyone in Brussels thinks he can determine the status of the Palestinians through aubergines, he is greatly mistaken."

He said the EC was guilty of "a flagrant breach" of its 1975 treaty with Israel, by not following an agreed disputes resolution procedure over a separate, but related, European complaint about an Israeli import tax.

Kampuchean PM meets Sihanouk

Prince Norodom Sihanouk, the Kampuchean resistance leader, and Prime Minister Hun Sen met for a second day yesterday and decided to hold two more rounds of talks, the first scheduled for April, AP reports from Fere-en-Tardenois, Northern France.

Mr Hun Sen qualified the meeting as "an addition to the success" of Wednesday when the two met for the first time in a reconciliation effort aimed at ending the Kampuchean war. He said a joint communique would be signed on Friday.

N Korea debt discord

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

WESTERN commercial banks were yesterday contemplating reviving legal action against North Korea after talks with the country on a rescheduling deal appeared to have collapsed.

North Korea was declared in default in August on DM1.4bn (£468m) of bank debt originally lent in the early 1970s by two bank syndicates, led separately by Morgan Grenfell, the British merchant bank, and the Australia and New Zealand Banking Group.

The North Koreans staved off court action in September by signing an accord which paved the way for a rescheduling agreement to spread repayments over 12 years.

However, in talks in Vienna last month meant to put the final touches to the accord, the Koreans said they were dissatisfied with several of the proposals, including the size of a proposed DM49m downpayment.

The banks told the Koreans they would consider a reduced downpayment, but having returned to London, the Koreans raised further objections not mentioned in Vienna. At a press briefing yesterday, bank officials said that as a result they were consulting their lawyers.

Mr Colin McAskill, who acts as a London representative for North Korea, said his conversations with officials in Pyongyang indicated the Koreans were still interested in an agreement.

Big debt task faces Australia

AUSTRALIA faces an awesome task stabilising and possibly refinancing its massive foreign debt, according to a new analysis of the problem published yesterday, **writes Chris Sherwell in Sydney.**

The study, by Professor Warren Hogan of the University of Sydney, rejects "doomsday" scenarios. But it is a sombre reminder of the impact the country's foreign borrowings is likely to have on future living standards in Australia.

Australia's gross foreign debt reached A$110bn in July, the end of fiscal year 1986-87, or 41.6 per cent of gross domestic product. Four years ago the figure was only A$36bn.

AMERICAN NEWS

Hopes rise for Brazil payments resumption

By Stephen Fidler, Euromarkets Correspondent

HOPES FOR an end to Brazil's nine-month moratorium on interest payments to foreign banks rose yesterday with an announcement that indicated a good response by banks to an interim financing package.

A joint statement from Brazil and the 14-bank committee of creditors said that banks had made commitments to provide about $2.8bn of the $3bn needed in the financing. "Additional commitments to complete the financing are expected over the next few days," the statement said.

The plan envisages that the 70 or so main creditor banks, among those with exposure in Brazil, will provide $3bn in two instalments, the first $1bn of which will be disbursed this month. The remainder, if a rescheduling package for Brazil's medium-term debt is agreed, will be paid out in June.

Once it has received the first instalment, Brazil will repay $1.5bn, thus taking care of the interest due in the last three months of the year and ending the interest moratorium it announced in February. Under the agreement, Brazil will repay $3bn to the banks in June so as to bring it up to date on interest.

Bankers are emphasising that, while the interim financing package is an important first stage, many questions still hang over a broader rescheduling agreement for the medium term.

Banks and Brazil are still at odds, for example, over the proper role of the International Monetary Fund. Even if an agreement is reached, many bankers are dubious about whether the political will exists in Brazil to push through such an accord in 1988, particularly in what promises to be a presidential election year.

The deal was given a fillip by the participation of most Japanese banks, which started to commit to the facility on Wednesday morning. This meant that the majority of banks from the main national banking groups had joined, although some other banks, particularly those of southern Europe, were said not yet to have backed the financing.

Banks which committed to the deal by midnight on Wednesday receive an extra ¼ per cent fee. Those committed before November 26 receive a ⅛ per cent fee.

Stewart Fleming talks to one of the senators who will shape the arguments over arms control

Senate braces itself for heated INF debate

WHEN President Ronald Reagan seeks Senate ratification for the intermediate range nuclear missile arms control agreement which he and Mr Mikhail Gorbachev, the Soviet leader, will sign next Tuesday in Washington, he will start one of the most intense Senate debates in recent memory.

"This treaty is going to force a debate about military strategy of major dimensions. It's going to be very protracted here in the Senate...it is a fundamental change and the nuances of the INF treaty are very profound for Western security," according to Senator Dan Quayle, a 40-year-old Indiana Republican who will be one of the senators helping to shape that debate.

The Administration needs quick action on the INF treaty from the Senate. Even more important is that it be approved without the sort of reservations or amendments which could either render it meaningless or inhibit the US ability to press ahead with the negotiations on crucial strategic nuclear missile reductions.

Senator Quayle is not alone on Capitol Hill in his belief that the treaty will probably be approved, or in his conviction that reservations will be attached, designed to restrict Mr Reagan's subsequent freedom of action. He is, however, more outspoken than some in his willingness to lay out the sort of qualifications he wants to see and why.

He is concerned that precedents are being set in the INF treaty for the strategic arms talks (Start) and he does not disguise his lack of confidence in the Administration's approach to arms control issues.

A conservative Republican, but one who has consciously avoided being tagged an Ideologue of the New Right, he says of the Administration: "There is some merit (in the argument) that their whole strategic vision is not very clear, it has not been articulated very well."

The Reykjavik summit last year, at which the broad principles for the Start negotiations were established, "was the most poorly-prepared summit in US history," he says. "I have had some briefings on those discussions and I was appalled. They were just sitting there back and forth, bantering positions without even having given this to their staff to look at ... to think about in an abstract sort of way what you are going to do. It's unbelievable. When somebody mentions the Reykjavik principles I say that's the problem."

Nunn: key role

It is widely anticipated that the man who will play the biggest role in the Democrat-controlled Senate is Senator Sam Nunn, the military and strategic affairs expert who chairs the armed services committee on which Senator Quayle sits.

But, given the Administration's need to minimise the extent to which the INF debate divides the Republican Party and weakens support for the President in an election year, the White House must keep a wary eye on the mood of Senate Republicans such as Messrs Quayle, John Warner and James McClure.

Senator Quayle argues that there will be efforts to attach reservations and understandings to the INF treaty in at least three areas and draws a comparison with the Jackson amendment to the Salt I strategic arms treaty which called on the Administration not to conclude any more treaties which provided for unequal limits on the weapons covered.

One issue, he says, will be the question of whether and how to link the question of correcting the conventional arms imbalance in Europe to the implementation of the INF treaty. "There will be some linkage, some oversight to see how this treaty in fact is moving along in conjunction with where we go on the conventional arms balance," he says, adding that it will be more demanding than just a vague statement that the Senate is "for a conventional force build-up."

Similarly he is anticipating an intense debate on the question of how the INF treaty relates to the Start talks. "We have to establish precedents we want to carry forward from this INF treaty," he says. The principle of on-site verification is one precedent. But he argues that, whereas there is only a 50 per cent degree of confidence in the quality of the INF verification regime, the much more significant Start agreement demands "a 90-95 per cent verification capability."

He also expects a determined effort in the Senate to curb the Administration's freedom of action in the Start talks in respect of conventionally-armed cruise missiles. The concessions which Washington has made on this issue in the INF treaty, he maintains, have opened the door for Moscow to try for a matching agreement in the strategic talks. "We will try to really hold their feet to the fire on that," so as not to surrender what he sees as the US edge in cruise technology.

Sen Quayle does not hide his scepticism about the prospects for an early strategic arms agreement, the Administration's public optimism on this score notwithstanding. "I don't see how the Senate can digest both treaties in this Congress," he says. He maintains that much more thought has to be given to the strategic implications of a Start accord.

Part of that thinking, he argues, should be a redefinition of the strategic defence initiative to abandon what he sees as President Reagan's grandiose and unrealistic definition of the programme as a "leak-proof shield" against incoming ballistic missiles. "It will have to be less robust," he says, geared more towards countering a limited nuclear attack, an accidental launching or a missile launched by a third world country.

From a practical point of view he suggests that, as the Senate gets bogged down in the debate over INF, this will also tend to chill the pace of progress on Start.

Chilean guerrillas release colonel

By Mary Helen Spooner in Santiago

A CHILEAN army colonel, kidnapped three months ago by left-wing guerrillas, was released late on Wednesday in Brazil and has returned to Santiago.

Col Carlos Carreno, deputy director of the Chilean army's munitions company, said his captors had drugged him, put him in a large box and smuggled him out of the country in a truck 10 days earlier.

Chilean authorities had mobilised 5,000 security agents, police and troops throughout Santiago but failed to find the officer or his captors.

General Augusto Pinochet's regime despatched an army aircraft to Brazil to collect the colonel, who was released in S ao Paulo and is now in a military hospital in Santiago.

The Manuel Rodriguez Patriotic Front, the left-wing guerrilla group which last year attempted to assassinate President Pinochet, agreed to release the colonel in exchange for $50,000 worth of food, clothing, medicine and building materials, to be distributed in 18 slum neighbourhoods of Santiago.

The front has kidnapped two other Chilean officials -- a policeman and another army officer -- during the past 18 months and released both men in less than 48 hours.

The Roman Catholic Church in Chile began discreet negotiations with the guerrillas, who reduced an initial demand for $2m.

Soon after the colonel had been abducted, five young members of the Chilean Communist Party were reported missing. Human rights groups said there had been a reprisal for the kidnapping.

In statements to Brazilian reporters, Col Carreno said the front had treated him as a "prisoner of war" and had not physically mistreated him.

The kidnapping is likely to strengthen the hardliners in the Chilean army who perceives the country to be in a prolonged state of war with Marxist enemies.

UN may be unable to pay staff

BY OUR UN CORRESPONDENT

THE chronic financial delinquency of almost two-thirds of the United Nations membership - with the US the worst offender - has brought the organisation to such dire straits that it will probably enter the New Year with barely enough cash to meet two weeks' commitments.

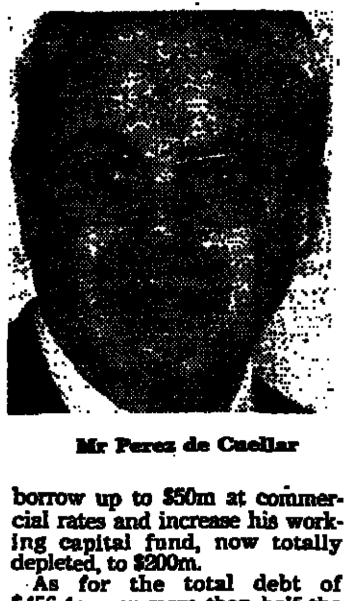
This was the conclusion of the report presented to the General Assembly by Mr Javier Perez de Cuellar, the Secretary General, on Wednesday. He expressed his "grave concern" about the crisis.

He has already warned staff that unless a promise of $90m this month from the US is honoured they may get no year-end pay cheques.

While the $342.8m oustanding from the US is the biggest amount owed, 92 other members are in arrears and 42 owe not just this year's assessments but for previous years also.

The Soviet Union, which for years was the biggest debtor, now is in the UN's good books. Mr Mikahil Gorbachev has matched his recent strong statement of support for the organisation with hard cash and Moscow is likely to end 1987 with a credit.

The situation is so bad that Mr Perez de Cuellar has proposed for the first time to seek funds on the open market. He wants to borrow up to $50m at commercial rates and increase his working capital fund, now totally depleted, to $200m.



Mr Perez de Cuellar

As for the total debt of $456.4m - or more than half the annual UN budget - he proposs to issue interest-free certificates of indebtedness.

Mr Perez de Cuellar introduced a number of economy measures last year in a bid to deflect criticism that his adminstration was top heavy. He froze recruitment and cost of living increases, cut the number of senior posts and limited travel and the use of consultants.

It is now almost a year since the General Assembly agreed to a package of reforms aimed at ensuring that the big contributors paid the funds they had withheld. The US, however, has ignored this, because it still feels the big contributors should have a bigger say in budget-making.

Lt Gen Vernon Walters, the American delegate, has expressed satisfaction with the reforms and said he believed Washington would pay up. But, apart from the $90m pledge, substantial payments are still being held up in the Congress. There is even some uncertainty whether the immediate promise will be kept.

Sen Bob Dole, a presidential hopeful, has criticised the Administration for proposing to pay even this paltry amount, calling the UN "an international walfare programme" that the average taxpayer is in no mood to finance.

Rightly or wrongly, there is a perception that Mr Perez de Cuellar's belt-tightening is insufficient and that there are still far too many secretariat staff riding a gravy train, and too many costly and unnecessary programmes.

US factory orders rise by 1.1%

ORDERS to US factories for manufactured goods rose by 1.1 per cent in October, reflecting strong demand in the transportation sector, the US government stated yesterday, AP reports from Washington.

The strong rise in October orders, which came in the face of the record fall in stock prices that month, was likely to be cited as further evidence by the US administration that the market turmoil had little effect on the overall economy.

The Commerce Department said total orders for durable and non-durable goods climbed to $208.9bn - up $2.2bn from the September level. Transportation orders totalled $28.5bn.

The key category of non-defence capital goods advanced 1.3 per cent, almost double the September gain. This category is closely watched for signals it can give of industry's plans to expand and modernise production facilities.

Peru set to stem loss of foreign exchange

BY BARBARA DURR IN LIMA

PERU'S rapid loss of foreign reserves is prompting the Government to take a series of corrective measures which will include a devaluation of the inti and better exchange rates for exporters, Ministry of Economy and Finance officials say.

With net foreign exchange reserves at $240m and declining, and gross reserves at $1.3bn, economic officials say they made a mistake in not acting sooner to promote exports. Peru's commercial deficit this year is expected to be about $537m, including visible trade and non-financial services.

While officials say that their heterodox economic model is not dead, they are preparing a package of adjustments, to be announced in the coming weeks, such as higher taxes, restrictions in imports, and more traditional fiscal deficit cuts.

To put more money in the Government's pocket, prices for electricity and telephones have already risen. Increases in petrol prices and sales taxes are also being considered.

The ministry projects that Peru's GDP growth this year will be 6.6 per cent, with an inflation rate of 111.5 per cent. The growth has come at a cost, from January through November, of $600m worth of foreign reserves.

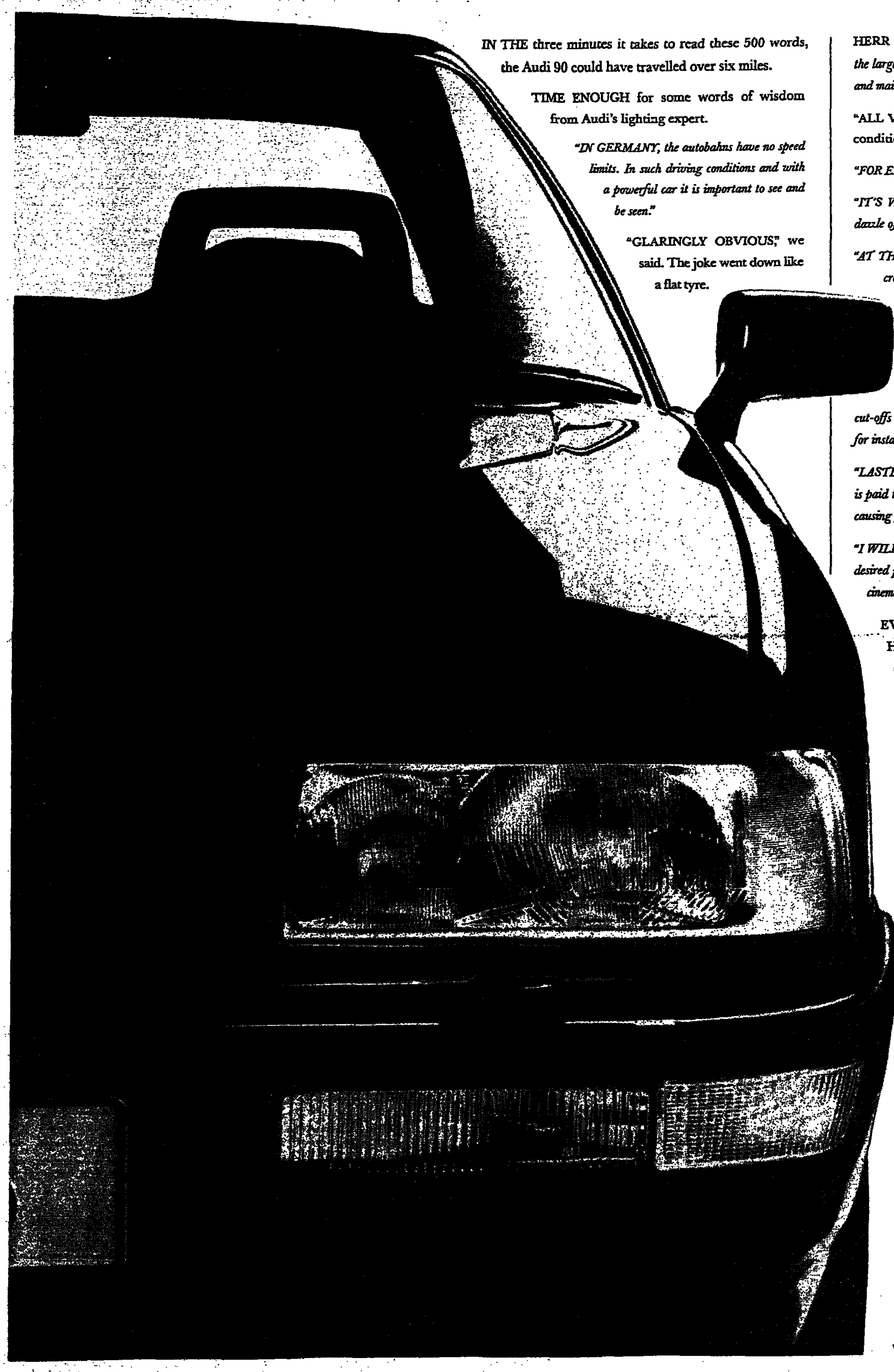
The Government's budget deficit is only 4.5 per cent of GDP, according to Mr Gustavo Saberbein, Economy and Finance Minister.

Peru grew last year at 8.5 per cent, with an inflation rate of 63 per cent. Government economists now regard the rapid growth of last year as an error. They blame inflated wage increases by private companies for having pushed demand too high.

To correct their commercial balance, officials say they will try to encourage exports with an initial devaluation at the beginning of the year and gradual devaluation thereafter according to wholesale prices. They also aim to restrict imports of non-financial services, consumer goods and food.

Peru is also attempting to improve its relations with the international financial community. As an example, officials said a mission from the World Bank, now in Peru, is helping to elaborate the Government's economic programme for the next 2½ years.

THE AUDI 90 CAN TRAVEL AT 187·7ft PER SECOND. HERR MANG PUTS IT DOWN TO A 20% IMPROVEMENT IN LUMINOSITY.



IN THE three minutes it takes to read these 500 words, the Audi 90 could have travelled over six miles.

TIME ENOUGH for some words of wisdom from Audi's lighting expert.

"IN GERMANY, the autobahns have no speed limits. In such driving conditions and with a powerful car it is important to see and be seen."

"GLARINGLY OBVIOUS," we said. The joke went down like a flat tyre.

HERR MANG pretended he hadn't heard us: *"With the Audi 90, the large lenses help project 20% more light on to the road, both on dipped and main beams."*

"ALL VERY well on a clear night, but what about poor driving conditions?" we asked.

"FOR ELEMENTS such as the fog lights we use ellipsoid technology.

"IT'S VASTLY superior to existing methods and minimizes the reflected dazzle off rain, fog and falling snow.

"AT THE same time it provides the driver with a beam of light with increased width and length for greater visibility."

HERR MANG was warming to his task.

"THE ELLIPSOID replaces the paraboloid reflector previously used to cast light on to the road.

"WE THEN added a screen which allows precisely defined cut-offs to give the required lighting effect. It can provide high sharpness, for instance, or an intentional lack of sharpness.

"LASTLY, THE lens is of heat treated, pressed glass and particular attention is paid to high surface quality to prevent light being deflected upward and causing glare to oncoming traffic.

"I WILL make it simple. If the old lights used a prism to direct light in the desired pattern, the ellipsoid uses a lens to focus it precisely. It's rather like a cinema projector."

EVEN WITH our limited technical knowledge, it was kind of Herr Mang not to keep us in the dark. But we had more questions.

"THAT'S FINE if we can see the 90 coming towards us, but what about traffic approaching from side roads or following behind?"

JUST AS we thought we'd put Herr Mang under an uncomfortable spotlight, we found otherwise.

"THE TURN signals are mounted within the front bumper and are big enough to be easily visible from the side as well as the front.

"THE NEW tail lights are also bigger. The light clusters form a continuous line with the number plate and, as an additional safety measure, are set high enough to escape damage in light impacts.

"AS YOU can see," added Herr Mang, *"everything we do must be seen in the overall context of the 90's design.*

"WITH THE headlights, for example, we bonded the light units and lenses together, but kept the reflectors adjustable inside the housing.

"THIS ARRANGEMENT keeps the headlight lenses flush with the body, regardless of the reflector setting. Therefore, you can adjust the headlights without moving the total unit, so aerodynamics are not affected."

"WHICH PRESUMABLY helps the car travel at 187·7ft per second," we mused.

"EXACTLY."

IN THE time it had taken the Audi to travel over six miles, we'd come full circle.

DER NEUE AUDI 90. VORSPRUNG DURCH TECHNIK.

THE NEW AUDI 90 STARTS FROM AROUND £14,000. BROCHURES AND PRICE LISTS FROM AUDI INFORMATION SERVICE, YEOMANS DRIVE, BLAKELANDS, MILTON KEYNES MK14 5AN. TELEPHONE: 0908 679121. EXPORT AND FLEET SALES, 95 BAKER STREET, LONDON W1M 1FB. TELEPHONE: 01-486 8411.

THE WASHINGTON SUMMIT - REGIONAL CONFLICTS

'We continue to have our differences and probably always will. But that puts a special responsibility on us to find ways - realistic ways - to bring greater stability to our competition.' President Reagan speaking to the UN General Assembly, September 21.

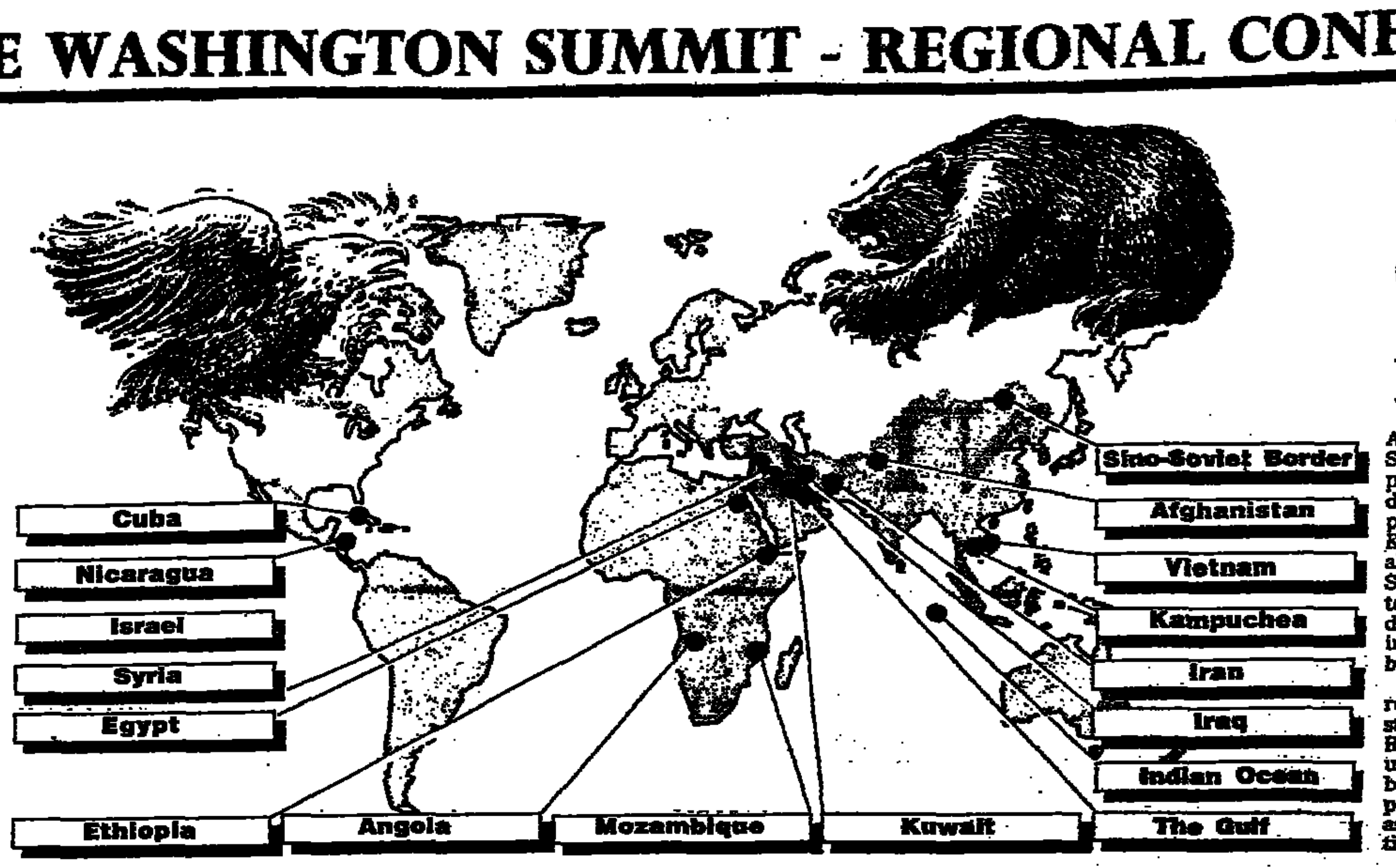
'There are so many problems in the world. Can't we join, pool the enormous might of our countries' economic and intellectual capacities to resolve these problems?' Mr Mikhail Gorbachev, speaking on US television, November 30.

ALTHOUGH nuclear weapons and arms control agreements are usually seen as the core issue of the US-Soviet relationship, and although Europe since 1945 has been the area where the two superpowers keep large military forces directly facing each other, both are acutely aware that small-scale conflicts in other parts of the world can provide the tinder which would ignite a superpower confrontation.

Both see themselves as global powers with global responsibilities, but for most of the period since the Second World War US forces and US influence have been the furthest flung. The Soviet Union, traditionally a land power rather than a maritime one, has exercised influence mainly on its own Eurasian land mass and among its immediate neighbours. Consequently superpower conflicts in most parts of the world tend to be perceived in Washington as Soviet incursions into areas of American influence - though Soviet leaders would, of course, argue that America has no natural right to greater influence in those areas than they do.

On this page Financial Times specialists look at five major areas of US-Soviet competition outside Europe, and at the prospects for discussion of them when President Reagan and Mr Gorbachev meet in Washington next week.

Edward Mortimer



High hopes of progress on Afghanistan

AFGHANISTAN is, along with the Gulf, the regional issue on which the two superpowers are watching each other's behaviour most closely. It is probably also the one on which each side has highest hopes, though by no means certainty, of hearing something new and positive from the other in Washington next week.

It is the only country in the world in which the troops of one of the superpowers - the Soviet Union - are actively engaged in war. Both sides are well aware that this puts Mr Gorbachev at a disadvantage.

Most of the senior officials dealing with the issue on the American side either served in Vietnam or were involved in US foreign policy in a junior capacity during the Vietnam war. They have bitter memories of the difficulties that war caused for US diplomacy and the handicap it imposed in the superpower rivalry in those days. Not surprisingly, they take some pleasure in seeing the tables turned and feel little inclination to help the Soviet Union off its Afghan hook.

Until recently, however, they were reluctant to push the Vietnam analogy too far. Many of them believe the Vietnam war was lost not in Vietnam, but on American television screens and college campuses - and they saw little hope of Soviet public opinion being able to play a similar role. Nor could they see the Afghan *mujahidin* being forged into the kind of unified, disciplined and politically sophisticated enemy that they had faced in the Vietcong.

In recent months, however, Soviet officials seem to have succeeded in convincing their US counterparts that they now accept that the decision to send in troops in 1979 was a ghastly mistake, that they know they cannot win the war militarily and that they are genuinely looking for a way out.

The US attributes this apparent change of heart partly to its decision to start supplying the *mujahidin* with Stinger hand-held anti-aircraft missiles in 1986. This has enabled the guerrillas for the first time to pose a serious threat to Soviet communications and troop movements, most of which are airborne.

Another factor comes from within the Soviet Union: Mr Gorbachev's encouragement of greater openness (*glasnost*) in the Soviet media, including much franker reporting of the war in Afghanistan and the Soviet casualties it causes, and his evident desire to give priority to economic reform at home over military spending and burdensome foreign commitments.

But, while he may genuinely wish to get his troops out, Mr Gorbachev is concerned about what they will leave behind. He does not want to leave a bloodbath and he does not want another virulently hostile Moslem fundamentalist state - like Iran only more so - on his frontier.

So Moscow has been encouraging the puppet regime in Kabul not only to pursue the long-standing and hitherto sterile UN-mediated "proximity" talks with Pakistan, but also to broaden its base internally.

First the discredited President Babrak Karmal, installed at the time of the invasion, was replaced by the present leader Mr Najibullah. Then the latter launched a series of efforts at "national reconciliation," announcing a unilateral ceasefire, drawing up a new constitution and, in the last few days, holding a *loya jirgah* or grand national assembly in which some tribal leaders took part.

Clearly none of this has worked. The *mujahidin* groups refuse to have anything to do with Mr Najibullah or his government, insisting on direct talks with the Russians. So Mr Gorbachev is trying harder.

Two weeks ago Mr Yuli Vorontsov, a Soviet deputy foreign minister, met Mr Michael Armacost, a senior US State Department official, in Geneva and told him that at next week's summit Mr Gorbachev would have something new to say about the timetable for Soviet withdrawal.

This issue of the timetable has been, ostensibly at least, the main sticking-point in the talks between Pakistan and the Kabul regime. At the last session, held in Geneva in September, the Kabul offer came down to a 16-month period for Soviet withdrawal, while Pakistan said it would accept a maximum of eight months.

The importance of this dispute lies in the fact that Pakistan, as

its part of the bargain, would be expected to stop further external aid from reaching the *mujahidin* from the beginning of the withdrawal period. From the Soviet point of view, too short a period would leave the Kabul Government defenceless against guerrilla forces still heavily armed from abroad. From the *mujahidin* point of view, too long a period would leave them disarmed while the Soviet troops were still in the country.

But clearly that begs the question of the political arrangements in place at the time. If it were satisfied on that score, Moscow could face a shorter withdrawal period with equanimity. Recent statements both from Soviet spokesmen and from Mr Najibullah indicate that Mr Gorbachev is now willing to come down below 12 months, but only on condition that a mutually acceptable "interim government" is first put in place.

The Russians believe that Zaher Shah, the king of Afghanistan deposed in 1973 and now living in Rome, could play a crucial part in bringing the different Afghan parties together and they are now encouraging the UN to "facilitate" such talks, whereas hitherto they vetoed any involvement by the UN in Afghan internal affairs.

The US, for its part, says it has nothing against such a solution, but that it is up to the Peshawar-based parties to make up their own minds. It has not so far been willing to put any pressure on them to co-operate, nor to put any pressure on Pakistan to facilitate ex-king Zaher's political contacts with the Afghan refugee population.

It seems likely that if Mr Gorbachev does have something positive to offer on this issue at the summit, it is such helpful pressure from the US that he will be looking for in exchange.

Edward Mortimer

Angola dominates African agenda

ONE outstanding issue will face President Reagan and Mr Gorbachev when they tackle the subject of Africa on their summit agenda: how to extricate their countries and their proxies from a devastating war in Angola which critically affects hopes for a peaceful solution in South Africa.

Given the complexities of the conflict no-one expects a breakthrough. But there are signs, says one US official involved with Africa, that the Soviet Union is reviewing its strategy in southern Africa: "Moscow is taking a sombre view of regional realities - neither side in Angola can win, and there is not a revolution round the corner in South Africa."

The ground has already been prepared. Mr George Shultz, the US Secretary of State, and Mr Eduard Shevardnadze, the Soviet Foreign Minister, have discussed the vexed issue of the Angolan war and its implications in meetings this year.

Over roughly the same period, Dr Chester Crocker, the US assistant secretary of state for Africa, has renewed direct talks with senior Angolans.

Such initiatives on Angola are not new; but for the first time, there are signs that both superpowers share a sense of futility about the war and are coming to the conclusion that a solution is in their mutual interest. The prize would be peace in Angola, independence in neighbouring Namibia (South West Africa), and an easing of superpower tensions in the part of Africa where the Soviet Union and its Cuban ally are most heavily committed.

The Soviet Union's involvement in sub-Saharan Africa did not begin in Angola: in the late 1950s, Guinea was taken under Moscow's wing, followed by the Nkrumah government in Ghana; the Soviets subsequently played a role in the Congo (now Zaire), Sudan, Somalia and more recently Rhodesia (Zimbabwe), where Moscow was the main military backer of Mr Joshua Nkomo's Zapu party. And in its first years of independence, Mozambique relied heavily on its Soviet backers.

This abbreviated catalogue of involvement tells its own story - a patchy record of limited successes. Former client states have

become disillusioned with Moscow and forged new foreign policy alliances. Mozambique, for example, is strengthening links with Britain, has built up a cordial relationship with Washington and is shifting away from socialist economic policies.

To the US, however, Soviet intentions were nowhere more suspect than in Angola and Ethiopia - and they remain so today. Washington continues to condemn Soviet dominance of Ethiopia, whose government is buttressed by over 6,000 Russians and Cubans.

But Ethiopia will not feature significantly at the summit, say US officials. Priority will be given to Angola, where there may be what one US official calls "a graspable solution" based on an 10-year-old United Nations plan for the independence of Namibia. Accepted in principle by all sides, it has failed to be implemented because of US and South African insistence that it be linked to simultaneous withdrawal of foreign forces from Angola.

Five armies are involved in the war, which has been steadily escalating since Angola's independence from Portugal in 1975. On one side are the forces of the MPLA government of President Eduardo dos Santos, backed by the largest foreign military contingent on the continent: an estimated 35,000 Cuban soldiers and over 1,500 Soviet and East German military advisers.

On the other is the guerrilla army of Unita, led by Mr Jonas Savimbi, backed by South Africa logistically, sometimes reinforced by Pretoria's armed forces, and equipped with Stinger missiles and other equipment supplied by the US.

But the Angolan war involves another guerrilla force: the South West Africa People's Organisation. With bases in southern Angola, it is fighting to end Pretoria's illegal occupation of neighbouring Namibia, where upwards of 40,000 South African troops are stationed to back up units permanently in southern Angola.

Last month the South African government underlined the global dimension to the Angolan conflict by declaring that for the first time its forces had directly clashed with Cuban and Soviet troops in a series of battles.

The US and the Soviet Union have very different perspectives on the war. As long as Cuban troops remain, argues the Reagan Administration, it will be impossible to persuade South Africa to stop supporting Unita, concede Namibian independence, and dismantle apartheid within a framework of regional security.

In Moscow and Havana, South Africa is seen as the destabilising force in the region, with at least three objectives. The first is to retain control of Namibia by attacking Swapo's vital bases in southern Angola.

The alliance with Unita not only helps in the battle against Swapo but is part of the second objective: to destabilise and perhaps topple the Government in Luanda. And the third objective is to "internationalise" the war as an East-West conflict which distracts attention from South Africa's internal crisis.

Deep distrust of Pretoria is reinforced by the example of Mozambique, where South Africa continued to support anti-government rebels despite a non-aggression pact between the two countries signed in 1984.

US officials believe that the UN plan, set out in Resolution 435 of 1978, providing for independently supervised elections in Namibia, remains the basis of a settlement. But what has held up progress is the "linkage" issue: that the departure of South African troops from Namibia will not take place until Cuban forces withdraw from Angola.

This issue is at the heart of the current negotiations. Luanda has offered a phased reduction over 24 months; but a substantial Cuban force would remain north of the country's 13th parallel, out of the southern war zone but on call if Pretoria breached the agreement. Washington, for its part, is pressing for a shorter timetable and insisting on a total withdrawal.

It is premature to be optimistic. But if the Soviet Union is going to help shape a settlement in Angola, the first clear evidence could emerge from the summit.

Michael Holman

Sino-Soviet tensions ease slowly

THE NEW face of Mr Mikhail Gorbachev's Soviet Union contains some extremely old foreign policy wrinkles in Asia and the South Pacific.

Although both Mr Gorbachev and Mr Eduard Shevardnadze, the Foreign Minister, have adopted friendly, almost conciliatory, attitudes since their appointments, Soviet troops remain in Afghanistan and massed along the Sino-Soviet border, Vietnamese troops continue to occupy Kampuchea with Soviet political and financial support and the Soviet south-east Asian military capability continues to be significantly strengthened by the base at Cam Ranh Bay.

The Administration in Washington argues forcibly that until something substantial changes, namely an end to the two occupations, it remains unrealistic to assume that the Soviet Union has dropped military hegemony from its foreign policy.

The Soviet Union and China are certainly closer now than they have been for decades, both being keen to improve their trading links. In 1985 a key five-year trade agreement was signed, aimed at raising bilateral trade from $1bn (£546m) a year to $10bn by 1990.

But, to the anger of China, the Soviet Union maintains a force of 500,000 troops along the Sino-Soviet border. What happens to these troops is of great concern to the US and Western allies as the Soviet Union is not thought likely to cut the size of the Red Army quickly or substantially.

The main stumbling block to further improvement in Sino-Soviet relations, however, is the Vietnamese occupation of Kampuchea, where the invading force of 140,000 troops has been in place for nine years. It represents an almost insurmountable hurdle to the foreign policy goals of every nation with interests in the region, including the US. All Asean nations have made Vietnamese withdrawal from Kampuchea a precondition of improved ties with Moscow.

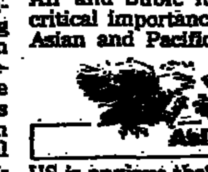
Vietnam has received $1bn of economic aid a year from Moscow, a figure which has now been doubled.

So while the occupation suits Vietnam and keeps the Khmer Rouge government out of control in Phnom Penh, the Soviet aid to Hanoi buys Moscow an important strategic interest in Vietnam, where it has taken over the former US air base at Da Nang and the naval base at Cam Ranh Bay.

The US has insisted for years that these bases are being dramatically extended, changing significantly the potential Soviet threat in south-east Asia.

The Soviet naval presence in the South China Sea has recently averaged 25 to 30 ships from Cam Ranh Bay. A squadron of advanced MiG-23 Flogger fighter-bombers operate from there with an unrefuelled combat radius wide enough to cover every Asean state, the South China Sea and the Malacca, Lombok and Sunda straits.

This makes the two large US bases in the Philippines, Clark Air and Subic naval bases, of critical importance to south-east Asian and Pacific security. The



US is anxious that anti-US sentiment be overcome sufficiently to enable a new agreement for the bases to be reached with the Government of Mrs Corazon Aquino, which benefits to the tune of $500m to $800m a year from their presence.

The Pentagon in recent years has looked at options for alternatives which include the Pacific islands of Guam and Hawaii or a move the other way to the west coast of Australia, all of which are less suitable.

Increased Soviet presence in the region has not been just military. Since 1980 the Soviet Union has been trying to establish links with the Pacific Islands, using fisheries agreements as the most likely route to success. They offered agreements worth about $1.5m to each independent state, all of which all turned them down.

The Soviet Union persisted and eventually reached an agreement with Kiribati in 1985, anxious to increase its income and escape dependency on aid. But the Russians got no port or shore rights and in October 1986 the agreement was not renewed. Six months later a similar accord was made with Vanuatu, including rights to put into port. But again no landing rights or shore facilities were granted.

Vanuatu also established diplomatic links with Moscow, although the importance of this was probably overstated as Fiji, Tonga and Papua New Guinea already had diplomatic links.

Thus far, the Russians have not been highly successful with their initiatives in the South Pacific Islands, which have a natural but diminishing slant towards the West.

It is for these reasons, and the belief that regional states must play a greater role in regional security, that the US is so dismayed by the collapse of the Anzus treaty between the US, Australia and New Zealand. It split when the New Zealand Government announced it would not allow any US ship carrying nuclear weapons into its ports. US policy is never to declare the nuclear capability of any ship.

"For that, a vital treaty has been spoiled and the geopolitics of the region tilted. The Soviets, who had not been doing particularly well in the Pacific, must have rubbed their eyes and ears in disbelief," said a Reagan administration official.

Robin Pauley

US softens line on Moscow role in Middle East

A FEW weeks ago Mr George Shultz, the US Secretary of State, presented King Hussein of Jordan with an extraordinary proposal. He suggested that the King, along with President Hafez al-Assad of Syria and Mr Yitzhak Shamir, the Israeli Prime Minister, should come to Washington during the superpower summit in an effort to relaunch the moribund Middle East peace process.

To King Hussein, who angrily rejected the idea, it demonstrated once and for all that the Reagan Administration has given up trying to convene a more broadly-based international peace conference, which he sees as the only way to take negotiations forward.

But the proposal, which apparently first came from Mr Shamir, also illustrated an important fact about the evolving US-Soviet relationship. For this was an Administration which had long been adamant that the Soviet Union had no legitimate role or vital interests in the Middle East which would justify offering Mr Gorbachev, the Soviet leader, the chance to co-sponsor negotiations on the region.

As one European diplomat in Washington put it: "The US has accepted the idea that it's necessary to speak to the Soviets on the peace process. That's very new and very significant."

It is not just over the Arab-Israeli conflict that there is a changed atmosphere between the superpowers. On the Gulf war, too, Washington has been highly solicitous of Moscow's co-operation in trying to secure an end to hostilities. With the unanimous passage last July of United Nations Security Council resolution 598, ordering an immediate ceasefire between Iran and Iraq, both the US and the Soviet Union seem to have set new store by an organisation towards which both had seemed at best apathetic in recent years.

Not that either power has yet wholeheartedly embraced the idea of co-operation on these two most intractable of regional issues. Each remains deeply suspicious of the other's aims, motives and methods. But as they circle each other warily, there seems to be more flexibility in the debate. In a part of the world which statesmen have often warned could provide the spark for a third world war, the reduction of hostility between the US and Soviet Union is palpable.

The improvement in the climate reflects a marked change in the Soviet approach to the Middle East over the last couple of years. Moscow used to feel excluded, aligned with uncompromising rejectionist states and cast in the role of "spoiler."

But under Mr Gorbachev it has made significant progress towards its central aim of recognition as a superpower in a region which is, after all, right on its doorstep. He has been trying to build links with states that in the past have been hostile to the Soviet Union, while not jeopardising relationships with existing allies. In the process, Moscow has adopted more flexible and what seem to be more moderate policies. "There is no doubt that the Soviets are pursuing a more activist policy in the Middle East," one senior Washington official says.

"They are really showing remarkable sophistication and flexibility," adds Ms Judith Kipper, a leading US analyst. As a result, Soviet influence in the region has been steadily increasing at a time when the US has been battling to overcome the embarrassments of Irangate and when the Administration is widely perceived as having run out of ideas on resolving the Arab-Israeli dispute.

Consider the following:

- For some time the Soviet Union has been seeking to build links with the conservative Arab Gulf states. Two years ago they established diplomatic relations for the first time with the United Arab Emirates and Oman. They have also been trying to mediate between Iraq and Iran, maintaining their strong ties to Baghdad, but also seeking to boost their influence in Tehran. "We need to keep a balance between these two very important countries," says Mr Alexander Zotov, a senior official in the Soviet Communist Party's international division.

Much to Washington's chagrin, the Soviet Union now appears better placed than the US to act as honest broker in the Gulf war. At the same time, the US has undoubtedly improved its stock among moderate Arabs through its strong stand over the Gulf, though lingering worries about its unpredictability remain.

- In recent months Moscow has been busily building bridges and mending fences in the Arab camp. It agreed to reschedule Egypt's substantial military debt and is boosting its diplomatic presence in the country by opening a consulate in Alexandria. It played a prominent role in this year's reunification of the Palestine Liberation Organisation under the leadership of Mr Yasser Arafat.

Most importantly, perhaps, it has been urging moderation on Syria, the radical state that is its closest regional ally. In a quite remarkable speech during a visit by President Assad to Moscow last April, Mr Gorbachev said in effect that the Arab-Israeli conflict was not going to be solved by military means - thus implicitly criticising the central foundation of Syria's foreign policy.

- In addition, Moscow has been assiduously courting Israel, with which it broke diplomatic

relations as a result of the six-day war in 1967. Senior Soviet officials have held repeated meetings with representatives of the Israeli foreign ministry and the Kremlin has had a symbolically significant technical delegation in Israel for some months now. There has also been a marked increase in the number of Jews permitted to leave the Soviet Union this year, a fact which is making a favourable impact on Israeli opinion.

What, then, does all this imply for the superpower summit and for US-Soviet dealings on the Middle East? In theory, there is significant common ground between the two, but in practice the over-riding aim of each remains to prevent the other from gaining undue advantage.

On the Gulf war, the Americans and the Russians are both anxious to avert an Iraqi defeat. But Washington views Moscow's temporising over a possible arms embargo against Iran and its criticism of the US naval presence in the Gulf with the deepest suspicion. Officials speculate that the Soviet Union may be looking for a wider opening to Iran, or waiting for the opportunity to capitalise on a US mishap.

Interest at the summit will focus on whether President Reagan and Mr Gorbachev remain on the same track - whether the President persuades the Soviet leader that an arms embargo is now needed, or whether the latter persuades Mr Reagan to allow more time for negotiation.

The Arab-Israel conflict is more complex and may not have gelled sufficiently for the two leaders to issue more than a minimal statement at the summit. The Soviet Union has been lobbying for an international peace conference to bring the parties together under UN auspices and gives the impression of great flexibility on the structure of such a gathering - including the issue of Palestinian representation. The US is much less keen, insisting it cannot act any more decisively because of the opposition of Mr Shamir to the whole concept.

As a result, the Soviet image has been steadily improving, and the US has, rightly or wrongly, been made to appear flat-footed. It is also only fair to add that Moscow has not been falling over to discuss the peace process in detail either. Indeed, when Mr Shultz was in Moscow in October, neither he nor Mr Eduard Shevardnadze, his Soviet counterpart, raised the issue.

It looks as if the Russians have concluded that decisive steps towards Arab-Israeli negotiations are not imminent and that it is more important to try and extend their influence so that they are in a position to participate on an equal basis when things do get moving.

Andrew Gowers

Gorbachev cautiously woos Latin America

THE REJUVENATION of Soviet foreign policy under Mr Mikhail Gorbachev has finally reached Latin America.

Moscow has clearly signalled it wants closer ties with the main "bourgeois" nations in contrast to the previous emphasis on links with individual Latin American Communist parties, revolutionary movements and those countries closest to the the Socialist bloc: Cuba and Nicaragua.

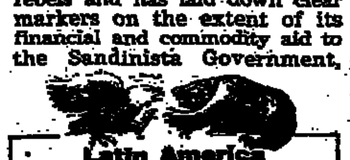
This approach was underlined during a visit in September to Argentina, Brazil and Uruguay by Mr Eduard Shevardnadze, the Soviet Foreign Minister.

The new Soviet leadership would like to encourage a more neutral, non-aligned Latin America and to underline the Soviet Union's status as a responsible superpower. Mr Gorbachev is also adopting a far more commercial and less political approach to trade. As a result of the fall in international oil prices the Soviet Union can no longer afford to be so tolerant towards its large trade deficit with Latin America.

Mr Gorbachev is proceeding cautiously, in contrast with 25 years ago when Mr Nikita Khrushchev embarked upon his risky high-profile involvement in the region with the decision to install missiles in Cuba. "The Soviets do not wish to do anything in the region that might too openly antagonise Washington," a prominent Latin American diplomat says. This is clear recognition that Latin America is a US sphere of influence and that the Reagan Administration is actively willing to assert itself - demonstrated by the continued blockade of Cuba, the backing of the Contra rebels to overthrow the Sandinista and the invasion of Grenada.

Soviet caution has been made evident in a number of ways where superpower interests could cause friction:

- The Soviet Union has refused to supply Nicaragua with modern jet fighters for its war against the US-backed Contra rebels and has laid down clear markers on the extent of its financial and commodity aid to the Sandinista Government,



meanwhile encouraging Latin American nations to resolve the Central American conflict.

- Mr Gorbachev has let it be known that he would like to visit Latin America, principally Argentina, Brazil, Mexico and Uruguay (the country in the region with the longest relationship with the Soviet Union, going back 60 years).
- In July 1986 Moscow concluded a fishing agreement with Argentina, yet when Britain introduced a 150-mile fishing limit round the Falkland Islands in January, the Soviet Union informed the British Government discreetly that every effort would be made to avoid incidents - and there have been none.
- The Soviet Union has kept well out of the troubles in Haiti when a decade ago this would have been seen as an opportunity to extend Soviet influence close to the US backyard.

Such caution is necessary to break down the traditional mistrust of Moscow and to improve the Soviet image among the "bourgeois" Latin American governments whose recent military rulers have been staunchly anti-Communist.

The Cuban experience - aiding a country to be independent and stand-up to "Yankee imperialism" - should have been a showcase for Moscow in Latin America. Yet Cuba is an example which not even Nicaragua has sought to emulate.

In Nicaragua, the existence of a Marxist-orientated regime in the US backyard has given hard-line right-wing ideologues in the Reagan Administration a propaganda stick with which to beat Moscow. However, the advent of the Sandinista revolution in Nicaragua has not been easy for the Soviet leadership to digest. The Kremlin appears unconvinced by the Sandinistas' attempt to create the first formal alliance between Marxists and Roman Catholics.

It is highly doubtful, in the event of any direct US intervention in Nicaragua, that the Soviet Union would become embroiled.

Ironically Peru, the one country with which the Soviet Union established a significant economic and military link during the 1970s, went relatively unchallenged by Washington. These ties survived even the advent of the conservative Belaunde Government in Lima in the early 1980s. There are now about 800 Soviet officials in Peru - diplomats, advisers, fishery personnel, Aeroflot staff and military - the largest contingent outside Cuba.

The change in Soviet policy towards the region has been helped by the ending of military rule in Argentina, Brazil and Uruguay. The newly democratic governments have been anxious for more balanced relations with the superpowers and to offset the close ties their often-disgraced military establishments had with Washington.

According to International Monetary Fund statistics, Soviet trade with the region has been static since the debt crisis and the Latin American countries are themselves exporting less.

The Achilles heel of Soviet credibility in this new, more diplomatic approach in Latin America is in the nature of its support for the Sandinistas in Nicaragua. Mr Gorbachev could be forced against his better judgment to become more deeply committed to Nicaragua and this could rekindle traditional fears of Soviet subversion among the "bourgeois" regimes.

Robert Graham

Orders for process plant set to rise

By Andrew Taylor in London

WORLD orders for process plant are likely to rise during the next decade, but so is competition among suppliers, says a report by the UK National Economic Development Office (Nedo).

The process plant industry produces equipment and designs and constructs plant for some of the world's biggest industries, including electricity generation, chemical, pharmaceutical and biotechnology plants, steel works, offshore oil and gas production, and nuclear fuel processing.

The report warns that developing countries are likely to provide increasing competition to process plant suppliers as they "gain sufficient experience to source indigenously for the known technology of both processes and of process plant and equipment."

World orders between 1990 and 2000 could range from $80bn to $172bn a year, the report says. Market opportunities would be influenced by political uncertainty, differing rates of economic activity, movements in oil prices and currency fluctuations.

Nevertheless, it expects workloads to increase during the 1990s. The offshore oil and gas industry is likely to remain the biggest single purchaser of process plant and equipment. Investment by the industry could average between $60bn and $100bn a year during the next decade.

World investment in the oil and gas industry is running at around $45m to $50bn, says Nedo.

The report also expects investment in electricity generation to increase in developing countries.

In other sectors growth is mostly expected to arise in high-technology areas such as specialist chemicals, pharmaceuticals, agri-chemicals and biotechnology.

As for compeititon from the developing countries, the report says modern purpose-built manufacturing plants in regions such as the Far and Middle East and in Turkey and Brazil permit more efficient flexible working practices. Low wages will enable manufacturers to reduce prices.

The report is also concerned that other countries spend more and are more proficient in targetting government aid budgets to win export orders.

British banks and financial institutions, it argues, should also become more innovative in developing financial packages to fund overseas projects.

Nedo would like to see closer collaboration between contractors and equipment manufacturers as well as government, financial institutions and domestic process plant operators all of which could help win overseas orders.

UK and World Markets: Securing them for British Suppliers; Nedo Books, £8; Millbank Tower, Millbank, London SW1P 4QX

EC warns Japan on whisky war

BY IAN RODGER IN TOKYO

THE European Community yesterday threatened retaliation against Japan unless it reformed its liquor tax system within a year.

Mr Willy de Clercq, the External Relations commissioner, declined to say exactly how the EC would retaliate.

But he said the EC expected Japan to carry out a full, complete and speedy implementation of the Gatt ruling that said Japan's liquor tax system discriminated against imports and must be reformed.

EC officials said Mr de Clercq would be making the same point to the Japanese Government leaders he was meeting yesterday and today. Japanese officials have indicated that reform will be very difficult to carry out because of domestic political opposition, and so the ground must be carefully prepared.

They have talked of introducing reform legislation in 1989. Mr de Clercq said it was customary for Gatt rulings to be implemented much more quickly than that.

He referred to a recent ruling against Canada's liquor taxes. In that case, Gatt exceptionally allowed a year for the changes, given the federal system and that provincial Governments were involved in liquor taxation.

"Japan is not a federal state," he said. He also reacted strongly to suggestions that Japan might combine liquor tax reform with its general tax reform plans.

"It is not conceivable to put an international ruling with domestic reforms," he added.

A Gatt investigation was launched yesterday to determine whether slaughterhouse standards in the European Community were blocking US meat imports in violation of free trade rules, Reuter reports from Genova.

Ministers and officials at the organisation's annual meeting agreed to set up a special dispute panel to rule on the transatlantic row. The EC had formerly blocked such a move. US meat processors and farm groups charged that stringent EC health regulations for slaughterhouses, meat storage and processing plants discriminated against imports.

Willy de Clercq: threat of EC retaliation

Kuwait to buy two minehunters and better missiles

BY ANDREW GOWERS IN KUWAIT

KUWAIT is to buy two minehunters and to upgrade its missile defences, Sheikh Salim al-Sabah, the Kuwaiti Defence Minister, said yesterday.

He said a number of offers of minehunting vessels had been evaluated, and a decision depended on Cabinet consideration of an increased defence budget in two or three weeks' time.

The disclosure follows news 10 days ago that Saudi Arabia is seeking tenders for a number of vessels to help deal with the threat of Iranian mines in the Gulf.

Sheikh Salim declined to discuss which countries or companies were involved in discussions with Kuwait or what the proposed purchases would cost.

Possible suppliers to both countries include Britain's Vosper Thorneycroft, Intermarine of Italy and a Franco-Belgian-Dutch minehunter. The vessels can cost up to £30m each.

Kuwait is studying several offers of surface-to-air missiles to counter the threat of Iranian missile attacks. In October Iranian missiles hit its Sea Island oil terminal. The offers include Hawk missiles from Raytheon of the US of which Kuwait already has a number; the British Aerospace Sea Wolf; and the French Thomson-CSF's Crotale missile or the rival Roland system.

The Sea Island attack exposed serious gaps in Kuwait's missile defences. Its Hawk missiles have been moved to Failaka Island, which is directly in the path from Iran's silkworm missile batteries on the occupied Fao peninsula in southern Iraq. As a further precaution, Kuwait has deployed several barges carrying reflectors to draw missiles away from their targets in its territorial waters.

Puerto Rico's rum industry under threat

Canute James, recently in San Juan, reports on Manila's move into the US market

PUERTO RICO'S rum industry, which accounts for a half of world consumption, is looking uneasily over its shoulder at a possible threat to its control of the US market. The Caribbean island supplies 85 per cent of the rum consumed in the US, but the industry is worried by a request to Washington from the Philippines for exemption from the $1.40 per gallon duty on rum imports.

If the exemption is granted, the Philippines want to ship to the US about 4m gallons per year, roughly a quarter of Puerto Rico's average shipments.

US rum imports from the Philippines average 100,000 gallons per year. Mr John Trifiletti, deputy head of Puerto Rico's economic development administration, argues that such a concession to the Philippines would seriously damage Puerto Rico's rum industry and the island's economy.

The US Government levies duties on Puerto Rican rum entering the mainland, but these are handed back to the island's Government and are a significant part of Puerto Rico's general revenue. Consequently, any reduction in the island's US market share is viewed with more than passing concern outside the rum industry.

But some sectors of the island's rum industry believe that the real threat to Puerto Rico from any concession on import duties to the Philippines will come, not from the Philippines, but from other major rum producers. Mr Trifiletto says that giving in to Manila's request would set a precedent which would be exploited by others such as Mexico, Colombia and Brazil.

Mr Manuel Luis del Valle, president of the Bacardi Corporation of Puerto Rico, the world's largest rum producer, agrees that the real threat to the island's rum industry could come from other, potentially powerful producers.

"Exemption for Philippines' rum can affect us, not so much because of what they produce, but because of the precedent it will set. Others will follow."

There is, however, some confidence that Puerto Rico's dominance of the US rum market gives it the strength to fight off any significant market penetration by the Philippines.

"At the moment we are concerned, but not worried about the threat of imports from the Philippines," says Mr Steve Joseph of Rums of Puerto Rico, the agency which markets the island's rums. "We do not know if it is going to happen. It appears that since the island already has such a large share of the US market, it will be able to contain any threat from the Philippines."

A serious market offensive by the Philippines could not have come at a worse time for the Puerto Rican industry. Puerto Rico's shipments to the mainland last year totalled 18m proof gallons or 5m gallons less than 1985 shipments.

"Any competition in a shrinking market is serious," Mr Mario Beloval of the Puerto Rico Rum Producers' Association says.

The fall in shipments is reflected in federal rebates of excise duties on rum to the Puerto Rican administration which fell to $210.4m in 1986, from $215m in 1986 and $259m in 1985.

There are signs, however, that the Puerto Rican industry is recovering. The Bacardi Corporation, which had total net sales of $234.3m last year, has reported net sales of $132m between January and June of this year, against $93.7m in the corresponding period of last year.

Mr del Valle attributes the fall in consumption to an increase in retail prices after the Federal Government imposed a 19 per cent increase on the $10.50 per gallon federal excise duty on distilled spirits two years ago.

"This brought about a negative reaction from consumers who did not want to buy at higher prices," the Bacardi Corporation president explains. "We are now seeing an adjustment which is reflected in increasing consumption. The industry is consolidating and we will see the disappearance of some low volume lines of products."

The immediate prospects for Puerto Rico's rums on the US market have been enhanced also by changing patterns in consumption. "Sales of brown goods - such as scotch and bourbon - have been decreasing," explains Mr Joseph. "Rum's market share has been increasing as the product is offered in white, light brown and dark brown varieties. The first two are up in sales."

There is in the Puerto Rican industry, however, an older concern than that posed by the likely competition from duty-free imports from the Philippines or other producers. Because of the dampening effect on consumption of the last increase in federal excise duties, there is always a fear that legislators in Washington, seeking ways to reduce the budget deficit, will propose increases in the duties.

In addition to reducing consumption, industry spokesmen report that the Puerto Rican economy would not benefit from the higher collections as these would not be passed on in the form of rebates but instead would be held by the Federal Government.

The Philippine rum threat echoes claims made three years ago by the Puerto Rican rum industry that it would lose ground to imports from neighbouring islands which received relief on duty paid on shipments to the US.

In the event, the Caribbean producers, with limited production capacity, have failed to dent Puerto Rico's share of the US rum market.

Israel may buy Soviet crude oil from Finland

BY ANDREW WHITLEY IN JERUSALEM

ISRAEL is considering buying Soviet crude oil from Finland in a deal which could pave the way for direct purchases.

The Israeli Energy Ministry said the Finnish Government had offered to sell on part of the crude it receives from the Soviet Union under barter trade arrangements. No volumes were discussed during recent talks in Helsinki with Mr Moshe Shahal, the Israeli Energy Minister.

But a ministry spokesman said yesterday the purchase would probably involve a series of cargoes rather than a single consignment. Prices would be determined according to the prevailing spot market conditions; and a preference would be given to light crude with a low sulphur content, for ecological reasons.

"If Finland were to offer a long-term contract, this would be studied," said the spokesman. "But the price would have to be attractive."

Israel purchases oil on long-term contracts from Egypt, Norway and Mexico, with the balance - representing about 30 per cent of domestic consumption - met by the spot market. But Israel is likely to favour a greater reliance on the spot market once the planned deregulation of the local oil industry is implemented in the coming months.

Efta 'at risk without EC collaboration'

BY PETER MONTAGNON, WORLD TRADE EDITOR

THE future of the European Free Trade Association (Efta) could be threatened unless it can collaborate to prevent the development of the internal European market from inhibiting its access to Community markets, Mr Pertti Salolainen, Finland's Trade Minister said.

"We want to secure concrete results from every meeting with the EC. Otherwise we fear that Efta might get into trouble," he said in a lecture at London's University College.

Speculation that countries like Norway and Austria might forsake Efta to join the EC because of the internal market was unfounded, but it was adding to pressures facing the Efta partners, he said. Whatever happened later, it was clear that no Efta country would join the EC before 1992 when negotiations on the internal market would be complete.

Meanwhile Efta countries must work together with the EC on a parallel approach to the internal market. "The better we work together, the stronger we are as a negotiating partner with the EC."

Efta countries' combined trade with the EC was almost as large as Community trade with the US and Japan, he added. Finland itself sent 44 per cent of its exports to the EC, compared with 20 per cent to other Efta countries and only 20 per cent to the Comecon bloc.

It had no choice but to make secure access to European markets the central plank of its international trade policy, Mr Salolainen said.

Farm trade reform plan

By Nancy Dunne in Washington

THE introduction of a system of fixed import tariffs as a path to reforming the world's farm trade has been proposed by Mr Aart de Zeeuw, chairman of the Uruguay round negotiating group on agriculture.

He suggested adopting an agreement under which quotas and subsidies would be replaced with fixed import levies, bound under the Gatt.

The tariff level could be negotiable and not so high that it would stimulate unjustifiable production increases.

He added that a system of levies "would enable countries which cannot accept a completely open market to realise a higher internal market price without nullifying the effect of price fluctuations."

MANAGEMENT

REGULAR readers of the Management Page may remember an article several years ago about a US company which was so desperate to match its Japanese competitors that it had adopted wholesale their national customs: kimonos for factory workers, screenings of kung-fu movies and a simulated "rush-hour" on the way to work.

The article* was an April 1 spoof. Yet in Japan today, there is a consumer products manufacturer which is quite seriously considering doing the same thing in reverse.

To get its engineers to "think international", it is discussing plans to instal them in an all-American development centre near its headquarters. It would be designed by an American architect, would serve American food in its canteen, be stocked with American publications and be surrounded by streets filled with American cars and billboards advertising American products.

The company's name cannot, unfortunately, be disclosed. However, its earnest attempts at a mass cultural transformation illustrate, albeit in an extreme form, an increasingly common challenge confronting much of Japanese industry.

Due to the growth of overseas direct investment and of alliances with partners abroad, many Japanese companies are suddenly being forced to take account of a much wider range of international influences than ever before. In the process their sense of distinctive cultural integrity, until now a keen spur to the national competitive effort, is emerging as something of a hurdle.

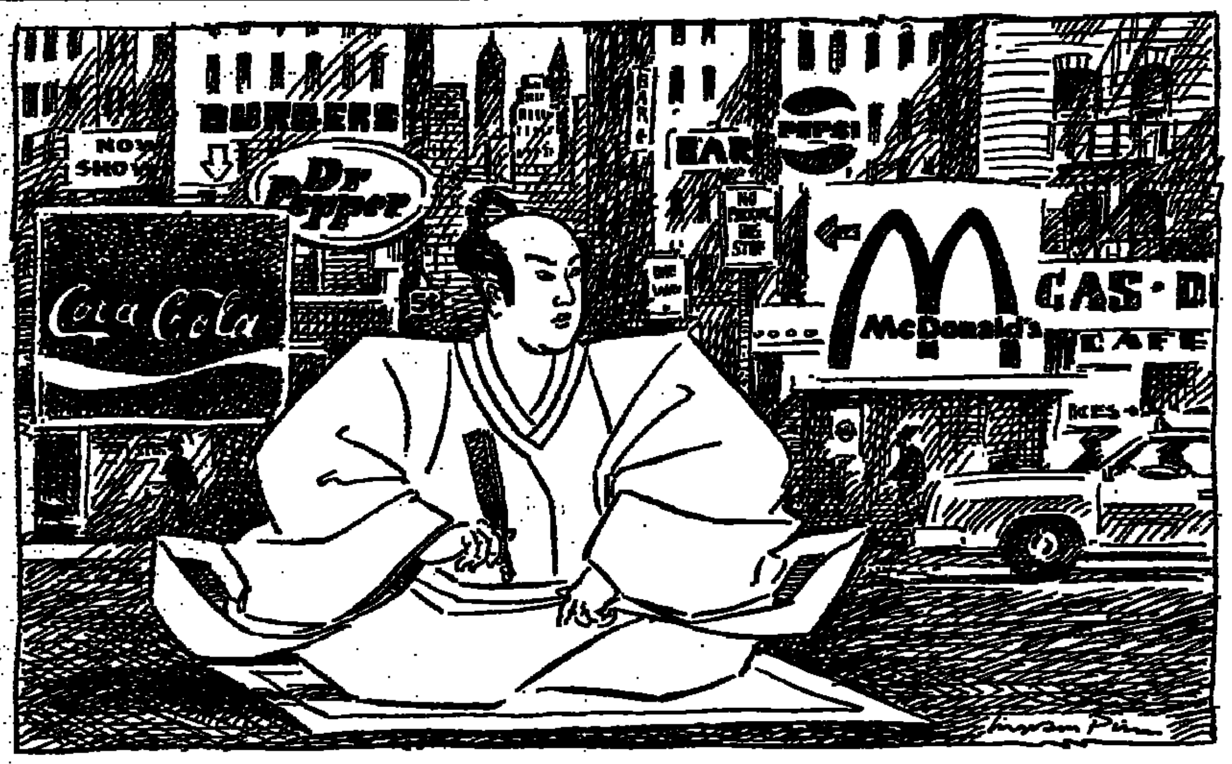
"The most difficult thing for industry about becoming more international is the big cultural gap between Japan and other countries," says Naohiro Amaya, a former vice-minister of international trade and industry. "We have had some cultural imports, but mainly from books. This is the first time we have had so many direct contacts with foreign people outside wartime."

Though Japanese businessmen scour the world voraciously for export opportunities, few take the chance to fraternise with people in the countries they visit. "Frequently they travel in groups, are whisked off on arrival by other Japanese, stay in Japanese hotels and shop in Japanese-owned stores," says one western businessman in Tokyo.

Furthermore, in many Japanese plants overseas, the learning process is mostly one way. Usually, it is the local workers who are required to adapt to models for organisation, working methods and labour relations already firmly established by the parent company in Japan - not the other way round.

Such experience does not provide a very solid basis for dealing with the much more demanding task of co-ordinating decision-making internationally.

Japanese management style, with its heavy emphasis on collective involvement, consensus and subtle modes of communication, sits awkwardly with the more hierarchical systems common in western business, which prize well-structured presentation, clearly identified objectives and confrontational debate.



Why Japan is inhibited by the cultural divide

Guy de Jonquieres examines the problems faced by the country's major companies as they attempt to become truly international

Western executives in Japanese companies often complain that their internal deliberations seem rambling and unfocussed and fail to produce a tightly-defined remit. Many Japanese, for their part, find the western (and particularly the US) approach offensively brash. "Americans are always pushing, pushing, in a Harvard Business School way," says Shinichi Yufu, executive vice president of Mitsubishi Electric.

Ken Iwaki, Sony's chief planner, says it has taken a decade of regular meetings to get good communications between its top Japanese and American managers: "We had many difficulties understanding each other. Sometimes, we Japanese do not express ourselves clearly - we act more out of gut instinct."

Exposure by more managers to the world outside Japan may help relieve this problem. Almost 1m Japanese now live abroad, and it is increasingly common to meet in Japan young high-flyers who have attended American universities and business schools.

Many companies have launched special initiatives to develop more internationally-trained staff. Toray, a large textiles manufacturer, has begun rotating managers regularly between home and foreign postings, while NEC, the electronics group, has set up a special international personnel division and a programme of two-year working visits for its non-Japanese executives.

Even so, there are often disagreements within Japanese companies about how far they should yield to foreign customs. Kohei Sakamoto, Toray's international managing director, wants to try to combine its own management philosophy with those of the countries in which it operates. But Toray's technical staff wants a new polypropylene film plant planned for the US to be operated strictly on Japanese lines.

At Sony, top management favours hiring local executives to run foreign subsidiaries, while operating staff in Tokyo prefer Japanese, according to Jack Schmuckli, head of Sony Europe.

Beyond these personal attitudes lies an issue of corporate structure. A few companies, such as Honda and Sony, have split their operations into geographical divisions, each responsible for an area of the world. Typically, however, even in successful exporting firms, the international operations staff is fairly weak and is an adjunct to domestic divisions.

This imbalance probably reflects, in part, a long-standing bias within Japanese industry, where an overseas posting has seldom been regarded as a way to the top. "There is a tendency for capable people to stay in Japan. They will go abroad, but they seem to feel rather reluctant," says Amaya.

In addition, shifting operations offshore is sometimes resisted by line managers and engineers at home who fear loss of influence, or by trades unions worried about jobs. At Matsushita Electric, for instance, "top management has had to make a very strenuous effort to push for more overseas production," according to Koju Suzuki, managing director of the company's overseas operations.

Once abroad, many Japanese managers also find it difficult to operate at arms' length from corporate headquarters. Kevin Jones, who works in the Tokyo office of management consultants McKinsey, says a common phenomenon in many overseas subsidiaries is the daily "9 o'clock rush" by managers to consult their parent company by telephone.

Indeed, the system does not seem inclined to reward independence. "Often, the more successful a Japanese subsidiary is overseas, the harder it is to have good relations with headquarters," says Jones.

Kenichi Ohmae, president of McKinsey Japan, argues that such factors make it exceptionally difficult for Japanese companies to decide how to staff their top jobs abroad. "They seesaw between extremes. They will start out by sending a trusted heavyweight from Japan. But he becomes frustrated when he sees local executives with less responsibility earning much more than he does and taking holidays in Bermuda.

"So then the companies say, the guy in charge doesn't have to be all that competent, all he has to do is to take orders from us. But often they end up hiring a second-rater who allows the business to deteriorate, and someone has to be sent out from Japan to clear things up. And so the whole cycle starts over again."

All companies with overseas activities face such dilemmas in some form, as is evident from the interminable debate in business schools over the best way to organise multinational management. However, to much of Japanese industry they are still a new and somewhat unnerving challenge.

Partly for this reason, most Japanese companies are still extremely cautious about transforming themselves into genuine multinationals by transferring abroad key decision-making authority and vital corporate functions such as research and development (R&D).

Michiyuki Uenohara, head of NEC's R&D group, acknowledges that the company should do more research overseas to show that it is committed to foreign markets. "But managing R&D requires much closer co-ordination between people than managing production and sales," he says. Personal communications between researchers in NEC's laboratories are so subtle and intricate, he says, that even its Japanese engineers need 10 years to become attuned to them.

To Japan's critics abroad, such arguments may sound like an excuse for not trying very hard. There may be an element of truth to this view.

However, Japanese companies' inhibitions about their ability to adapt to a very different, and often hostile, outside world, are undoubtedly deeply rooted in history and psychology and may not be broken down quickly.

Ohmae believes Japanese industry will learn quite quickly the technical and procedural aspects of managing offshore subsidiaries. "But in terms of cultural affinity, language and our ability to work with other nationalities, we start from close to zero," he says. "That can be changed in time, but I'm talking about decades, not years."

One of the intriguing questions for the future is how far this process will lead the Japanese to adapt to practices in other countries, and how far it will involve the rest of the world learning to behave more like them.

"Oriental dawn breaks in the West", April 1 1981, page 11.

Why Sony has yet to find a solution to the complexity of world markets

NO COMPANY is more closely associated with Japanese industry's relentless international expansion than Sony. With 70 per cent of its $8bn total sales last year outside Japan, its name is synonymous worldwide with consumer electronics.

Yet, according to Ken Iwaki, Sony's head of corporate planning: "That does not necessarily mean we are an international company." True, Sony has done more than most to bridge the cultural divide between managers of different nationalities. Iwaki says that since it set up regular quarterly meetings in 1975 between its top Japanese and American executives (conducted in English), each side has learned from the other. For instance, Sony in Japan now uses internal budgeting and planning methods imported from the US.

It is also committed to increasing sharply overseas production, which is due to rise to 35-40 per cent of total sales by 1990, from 20 per cent last year. However, the company admits it is still groping for a satisfactory answer to managing the complexity of global markets riven by currency instability and trade protection.

In Western Europe, where the company has six plants, local management is keen to lay down deeper roots, partly in response to political pressure on trade from the European Community. "It's not sensible to keep everything in Tokyo," says Jack Schmuckli, Swiss-born president of Sony Europe. "We have to move everything here, from engineering to strategic marketing and components."

The company recently set up an engineering centre in Stuttgart, West Germany, which Schmuckli hopes will eventually develop new products from scratch. He sees this as a key step to sourcing more components in the EC, because "engineers usually design around parts they know, and if they're sitting in Tokyo, they may not know what's available in Europe."

However, satisfying demands for more local design autonomy in Europe must be reconciled with company-wide pressures to cut

Akio Morita: has masterminded Sony's relentless push into world markets

costs by standardising components worldwide. Sony hopes to do this by linking all its designers to an electronic network which enables them to work together on a single computer database.

Iwaki worries that the standardisation drive may handicap innovation and creativity in a company renowned for giving engineers free rein. "It's a difficult balance. We're not sure yet if we can achieve it."

Choosing locations for the company's major plant investments is another area of contention. "We only need two small picture tube plants, one of them in Japan," says Schmuckli. "From a pure cost standpoint, it would be much cheaper to have the other in South East Asia. But if you look at the total picture, it has to be in Europe. It's economics versus politics."

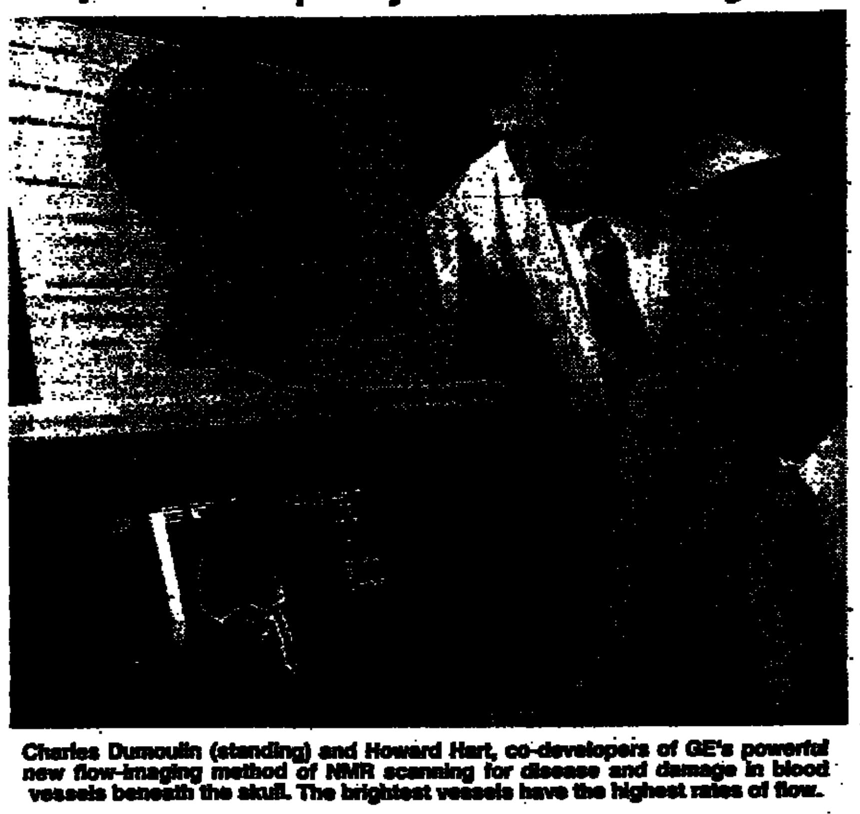
Iwaki accepts the logic of the argument, pointing out that "once we produce in one regional market, we get the right to import as well as to export."

However, he adds, with more than a hint of yearning for a simpler world: "Globalising production is a positive development, but the key reasons for it are negative. From a cost point of view, it would be most economic to concentrate production in one plant and have Japan as factory for the world. But other countries would never accept it."

TECHNOLOGY

How GE unravels web of healthcare

David Fishlock reports on a blood vessel image system developed by the US electronics giant



Charles Dumoulin (standing) and Howard Hart, co-developers of GE's powerful new flow-imaging method of NMR scanning for disease and damage in blood vessels beneath the skull. The brightest vessels have the highest rates of flow.

WHISPY WEBS of blood vessels in the head and the neck, thrown onto a screen, can give doctors a new insight into the well-being of patients. These electronic images reveal how fast the blood is flowing. The faster it flows, the brighter the blood vessel appears.

What interests the doctors, however, are the dimmer vessels - for a slow rate of flow can disclose such diseases as arteriosclerosis which is clogging the pathway and restricting the flow. From the new images doctors may be able to pinpoint clots and blockages in vessels as fine as 1mm in diameter, and recognise turbulence, another pointer to certain diseases.

The beauty of projection angiography, as US General Electric scientists call their new technique, is that it is non-invasive. Normally, in order to "image" blood vessels buried deep in the skull the radiographer must first inject his patient with a dye which absorbs X-rays, then make an X-ray exposure or scan, which can mean uncomfortable side-effects. Projection angiography is a new use of nuclear magnetic resonance (NMR) imaging, which is currently being evaluated as a clinical tool. NMR can also be used to follow some of the chemical changes going on in the body. Projection angiography is being developed by a team at US General Electric's corporate research and development centre, Schenectady, New York.

Diagnostic NMR is a British invention for which GE has already paid the British Technology Group some $15m in royalties on its sales as the world's biggest supplier of medical NMR systems. BTG is state-owned and seeks to commercialise UK Government-funded research.

An expert committee convened by the US National Institutes of Health to weigh progress with a technique available to doctors only during this decade, concluded last month that it is "an extraordinary addition to our diagnostic armamentarium."

Some 650 hospitals and clinics are already equipped with NMR, and performing some 2m patient examinations a year. The experts concluded that it is particularly well suited to examining the brain and spinal cord, and is the preferred method of searching for brain lesions caused by multiple sclerosis.

According to Charles Dumoulin, one of the pioneers of projection angiography, it harnesses the intrinsic physics of NMR.

The problem with NMR is the low signal-to-noise ratio. Dumoulin and co-developer Howard Hart, however, discovered how to distinguish between the magnetic resonance signals emitted by hydrogen atoms in motion (in blood, for example) and those that are stationary in organs and tissues.

They exploit the phase properties of nuclear spins as they move in the powerful magnetic field which envelopes the patient, and simultaneously suppress the non-moving spins.

The fact that NMR could pick up flow effects was recognised back in the 1950s but in the early years of NMR medical scanning it was seen largely as a distraction and a nuisance to chemical-change development work then taking place. Only quite recently has the immense clinical potential come to light.

The essence of NMR imaging is that when the patient is placed at the heart of a powerful magnet, certain atomic nuclei will behave as minuscule magnets and will align themselves with the surrounding magnetic field. The nucleus of particular interest in medical scanning is hydrogen, abundant in all living tissues. So medical NMR systems are tuned to receive the signals from hydrogen nuclei.

When a second, oscillating radio frequency magnetic field is introduced close to the part of the patient of interest to the doctor, it displaces the hydrogen nuclei in this region. The nuclei behave like a bell that has been struck and emit a signal, which can be translated into visual images for the doctor.

The precise "note" they emit will be affected by the physics and chemistry of their surroundings. In short, it can be related to the health of the patient.

Flow-sensitive NMR imaging focuses on the spin effects which the magnetic fields can induce in hydrogen nuclei. There are two such effects - a change in position of the spinning nuclei, and a secondary effect caused by its motion on the magnetic field itself.

This secondary effect raises the greatest difficulties for the researcher, but it offers the biggest opportunity for flow-imaging, Dumoulin says.

His experiments are done in an extremely powerful magnetic field, on an imaging system made by GE, using a 5-tonne superconducting magnet with a 1-metre bore, made by Oxford Instruments of the UK.

A "birdcage" design of radio-frequency coil is placed round the head of the patient, to excite nuclei and detect spin effects. This technique is relatively insensitive to normal movements of the patient during diagnosis, such as breathing or swallowing.

Suppression of "noise" from the surrounding tissues in order to highlight what is happening in the blood vessels themselves is a major difficulty with all forms of angiography - visualisation of such vessels - today. In their flow-imaging process, Dumoulin and Hart use three different ways of suppressing stationary spins in surrounding tissue. Medical NMR has moved amazingly rapidly in the past decade, giving the lie to the joke that it is "a technique for the future and probably always will be," says Dr John Schenck, a senior medical scientist at the GE research centre.

The major shortcoming of NMR flow-imaging at present is the relatively low resolution of NMR images, owing to the poor signal-to-noise ratio. One way of enhancing the resolution should be to envelop the patient in a higher steady magnetic field. The laboratory's latest efforts to improve the signal-to-noise ratio of its experiments includes the puchase of a huge magnet, specially wound by Oxford Instruments, and brought into research this autumn.

A doubling of the magnetic field strength doubles the noise but boosts signal strength by a factor of four. "So we end up winning," says Schenck. "It's a wonderful magnet." The price of success, however, is a 50-tonne magnet which has cost the laboratory about $1m.

WORTH WATCHING

Edited by Geoffrey Charlish

UB finds quick way to move its biscuits

THE FLOW of goods in and out of United Biscuits' 60,000-square feet warehouse near Glasgow has been accelerated and the paperwork reduced using a £70,000 computer and radio communications system that organises the movements of fork lift trucks.

The Computatruk system, installed by Process Computing of London, allows each truck driver to send information to a central, controlling Digital Equipment minicomputer.

Drivers collect loads, on pallets, from the end of the biscuit production line and place them on the warehouse input conveyor, at the same time keying in the product number on a fixed screen and keyboard terminal.

The information is sent to the central computer, and in the warehouse, the high-bay stacker driver, as he picks up the loads, keys in the appropriate product data on a terminal in his cab as a check. This information is also sent to the computer, which thereby always knows what is on the conveyor.

The central computer searches its memory for the next load due out of the high bay, finds the nearest empty storage space and tells the driver to take his pallet there. Then he picks up the outgoing load and takes it to the output conveyor. Thus, the trucks never return empty, saving considerable time and money. Each truck is able to perform 25 of these double cycles an hour and the number of trucks in use has been reduced.

Since the computer always knows exactly where each pallet is, the system is able to control stockholding, handling and order picking of United's 88 product lines with a minimum of paperwork. Up-to-the-minute management and stock control reports are produced by the minicomputer.

Philips logs on with miniature recorder

THE HIGHEST density of speech recording on a half-inch magnetic tape cassette has been achieved by Philips Communications and Security in its new CLS8000 logging unit.

The machine, likely to find applications ranging from air traffic control to currency dealing, can record 64 conversations at the same time for 24 hours on a cassette the size of a paperback book.

Such recorders are increasingly used where it is important to know who said what over a telephone or radio channel and at what time.

Philips is able to cram 64 conversations side by side on the tape by using a new design of "thin film" recording head.

Conventional magnetic recording heads use coils of fine wire on shaped magnet pole pieces and there is a limit to the size reduction that can be engineered if the heads are to work properly. In thin film designs, the tiny coils and magnetic construction are laid down with processes similar to those used in making integrated circuits.

Letter of the law hung out to dry

OVER 700 valuable books in the UK Law Society's collection, damaged by torrential rain in the hurricane of the morning of October 15, have been successfully dried out by a specialist unit at the Harwell Laboratory in Oxfordshire.

The books, including maritime law reports dating back to 1875, swelled as wind-driven rain seeped through the Society's library walls.

The librarian, knowing how quickly bacteriological damage could occur, sealed the books in freezer bags and sent them to Harwell. There, they were placed in a large vacuum chamber, together with chemicals that inhibit fungal growth.

At a pressure of about two per cent of atmospheric, the water that had soaked into the books boiled off at room temperature. No heat (which might have accelerated mould growth) was needed.

Degussa clears the air over Munster

GERMAN COMPANY Degussa reports that trials of a flue gas cleansing process called Desonox have been successfully completed and that construction has started of the first large-scale plant at the Hafen power station in Munster.

Developed jointly by Degussa, Lentjes and Lurgi, Desonox has already been the subject of small and large-scale tests.

In the presence of ammonia and a catalyst, it converts the oxides of nitrogen into nitrogen and water, and it turns sulphur dioxide into sulphuric acid.

In the pilot plants, which ran for some 7,000 hours, average separation rates of 90 per cent were achieved for the gases, which are believed by many experts to be damaging trees in parts of Europe.

Chemical warning for the firefighter

FIREMEN CAN have immediate, accurate information about chemical hazards or other unusual problems using a radio data system devised by Spectronics Micro Systems (SMS) of Cambridge in the UK.

Mobile data terminals, located in the cabs of fire and rescue vehicles, are linked to a base computer which has access to two databases, one covering 30,000 chemicals and the necessary protection methods, the other providing information about radiation, explosives, asbestos and electrical fires.

The system uses automatic error correction to avoid garbled messages and consumes less air time than speech, keeping channels clearer for essential speech traffic.

Spotlight turned on electronic boxes

THE HUMBLE box containing electrical and electronic systems is not such a simple object as might be supposed. Many designers fail to give it proper attention, according to "The Electrical Enclosure Handbook" written by Peter Young and just published by Sarel, a leading UK enclosure maker.

For example, one of Sarel's customers opted for a low-cost steel cabinet which, screwed to the end of Southend pier, was soon the subject of extreme corrosion.

Although sponsored by a single company, the author has garnered information from across the UK industry, which today serves a market worth about £25m. The result is a useful survey which will help users make a more informed choice in an area that has not been well documented to date.

Plessey cuts cost of high-frequency radio

PLESSEY SEMICONDUCTORS in the UK has developed a "chip" that contains most of the circuits of a high-frequency radio set.

This SL6638 component provides a low-cost solution for paging systems operating at up to 200 megahertz. Each chip costs £6.25, in quantities over 1,000, and allows a complete portable or hand-held radio to be built with a minimum of additional components.

CONTACTS: Process Computing: London, 961 6466. Philips Communications and Security: UK, 0223 245191. Harwell Laboratory: UK, 0235 24141. Degussa: Germany, 69 218 2860. SMS: UK, 0954 80888. Sarel: UK, 0582 402228. Plessey Semiconductors: UK, 0793 36251.

UK NEWS

Nick Garnett reports that BSC's profits signal early privatisation

British Steel sell-off comes closer

THE GOVERNMENT is to introduce legislation early in the new year for the return of the British Steel Corporation to the private sector, either at the end of next year or early in 1989.

Mr Kenneth Clarke, the Industry minister said yesterday that the legislation was expected to be completed by July but the exact date for flotation had yet to be decided. The timing would be affected by "market conditions."

The announcement that the corporation is jumping the privatisation queue ahead of water and electricity followed a statement from BSC that it had made a bottom line profit of £190m in the six months to October.

This compares with a full year profit of £178m in 1986-87 and one of £38m the previous year. It is, at the moment, one of the world's most profitable steel makers. The corporation made a loss in each of the ten years before 1985 during which it received Government aid totalling £7bn.

Sir Bob Scholey, the corporation's chairman, welcomed the announcement and said that the corporation was commercially ready for privatisation. This would give it the freedom to make decisions in a trading environment that he expected to become more "hostile".

BSC also said yesterday that "subject to market conditions" it expected that there would be a commercial need to continue steelmaking for at least seven years at all its five integrated plants, including Ravenscraig in Scotland which employs 3,500.

That is not a guarantee however and the corporation indicated that if it did want to shut steel-making at Ravenscraig it would study any private-sector offer for it. It also said that the hot strip mill at Ravenscraig, which is costing BSC an extra £15m to run and is perhaps surplus to needs, would only be guaranteed to 1989.

The bulk of the steel industry was brought into state ownership in 1967 by the Labour Government under Mr Harold Wilson, now Lord Wilson. But large chunks of it were brought back into semi-private ownership during the 1980's in the so-called Phoenix programme, in which BSC's rod and wire, engineering steels and forgings businesses have been put into Phoenix companies.

Mr Clarke confirmed that the corporation, which employs 51,200, would be floated off intact as one unit. This will include seamless tubes, the one BSC business still making a loss.

He said it was too early to tell whether the Government would sell off all its shares in one move but it saw no reason to retain a "golden" share. The corporation has something like £900m of accumulated debts and Mr Clarke said it would require some capital restructuring.

One suggestion, not confirmed by ministers is that BSC could forego some of the tax loss benefits of its debts for this. The Government will have to be careful, however, that it does not do anything which Brussels might see as a hidden subsidy.

The trading environment in which the newly-privatised company will have to live will be partly governed by whether the EC quota regime, which is largely due to come to an end this month, will continue.

Government ministers indicated yesterday that while they would like the regime scrapped, they might argue for a six-month cushioning period at the Council of Ministers meeting on Tuesday, which is discussing the issue.

Peter Riddell writes: The British Steel Corporation is to be returned to the private sector as a single unit in early 1989, much earlier than previously expected.

The move, announced in the House of Commons yesterday by Trade and Industry Minister, Mr Kenneth Clarke, was strongly criticised by Labour MPs for giving profits to the City of London and putting steel workers' jobs in jeopardy.

The Government has decided on an acceleration of privatisation partly as a result of a reassessment by Lord Young, the Secretary of State for Trade and Industry, since June, and partly in response to the calls from the corporation itself in view of its sharply improved results.

The main obstacle has been uncertainty over the future of the Ravenscraig plant which is a highly significant political issue in Scotland. Mr Malcolm Rifkind, the Secretary for Scotland, insisted on a guarantee about its continued operation and an understanding was reached with BSC that a pledge about the plant's future was the necessary price for agreeing to an early sale.

The Treasury has also been keen for an early sale to maintain the momentum of its privatisation programme.

Lloyd's architect put in the dog-house by workers' poll

BY NICK BUNKER

WHEN it comes to aesthetics, attack is by far the best form of defence. So it proved yesterday at Lloyd's, the London insurance market. Mr Peter Miller, the market's chairman, was trying to stand up for Mr Richard Rogers, architect of its £196m new headquarters in the City of London.

Three-quarters of the insurance people who work in Mr Rogers' blue steel-and-concrete tower say it is worse than their old building across Lime Street. They do not like the lifts, which 61 per cent say are too slow. Some 98 per cent of underwriters think the lighting is too dim. And 21 per cent are unhappy with the restaurant (known at Lloyd's as the Captain's Room).

These were some of the findings, released yesterday, of a MORI poll, commissioned in the summer, after complaints from underwriters and brokers.

One of the few encouraging findings was that 79 per cent of underwriters are happy with the position of their desks in the market's underwriting room.

Mr Miller, who steps down soon, was diplomatic yesterday about Mr Rogers. "He is an architect of genius, and many other things as well," he said.

He counter-attacked the building's critics, with a nod towards Prince Charles's onslaught this week on the City of London's concrete slabs. Look out of the 12th floor windows, and "you will see what the Prince of Wales was talking about," Mr Miller said. "You will see one of our big merchant banking buildings. Gosh, it is ugly. Gosh, it is boring. You may like or dislike our Lloyd's building, but it is not boring."

But 51 per cent of brokers, and 45 per cent of underwriters - especially the marine men - say the new building is fairly or very unsatisfactory.

Marine underwriters are aggrieved, in particular, about the fragmentation of their market across three floors.

Insurance brokers venture up the escalators to the market's Second Gallery only reluctantly. Marine underwriters marooned there see more than their share of the sub-standard shipping risks that insurers on the ground floor will not take.

"If a broker has a 30-year-old Greek hulk already holed beneath the waterline, he'll follow you to Scotland," says one Lloyd's marine market man on the Second Gallery. "That's the sort of mucky business we get up here now."

Worse still, some Lloyd's men fear that brokers may dislike the building so much that they would rather deal with insurance companies 200 yards along Leadenhall Street in the Institute of London Underwriters.

Where does Lloyd's go now? Back to the drawing board, but not, Mr Miller stressed, back to the old building.

By early January, Lloyd's hopes to appoint a new design firm to correct the building's problems.

"We are looking for a firm expert in the movement of people round a large building," Mr Miller said - like a shopping mall or an airport.

Post workers end strikes as talks continue

By Jimmy Burns, Labour staff

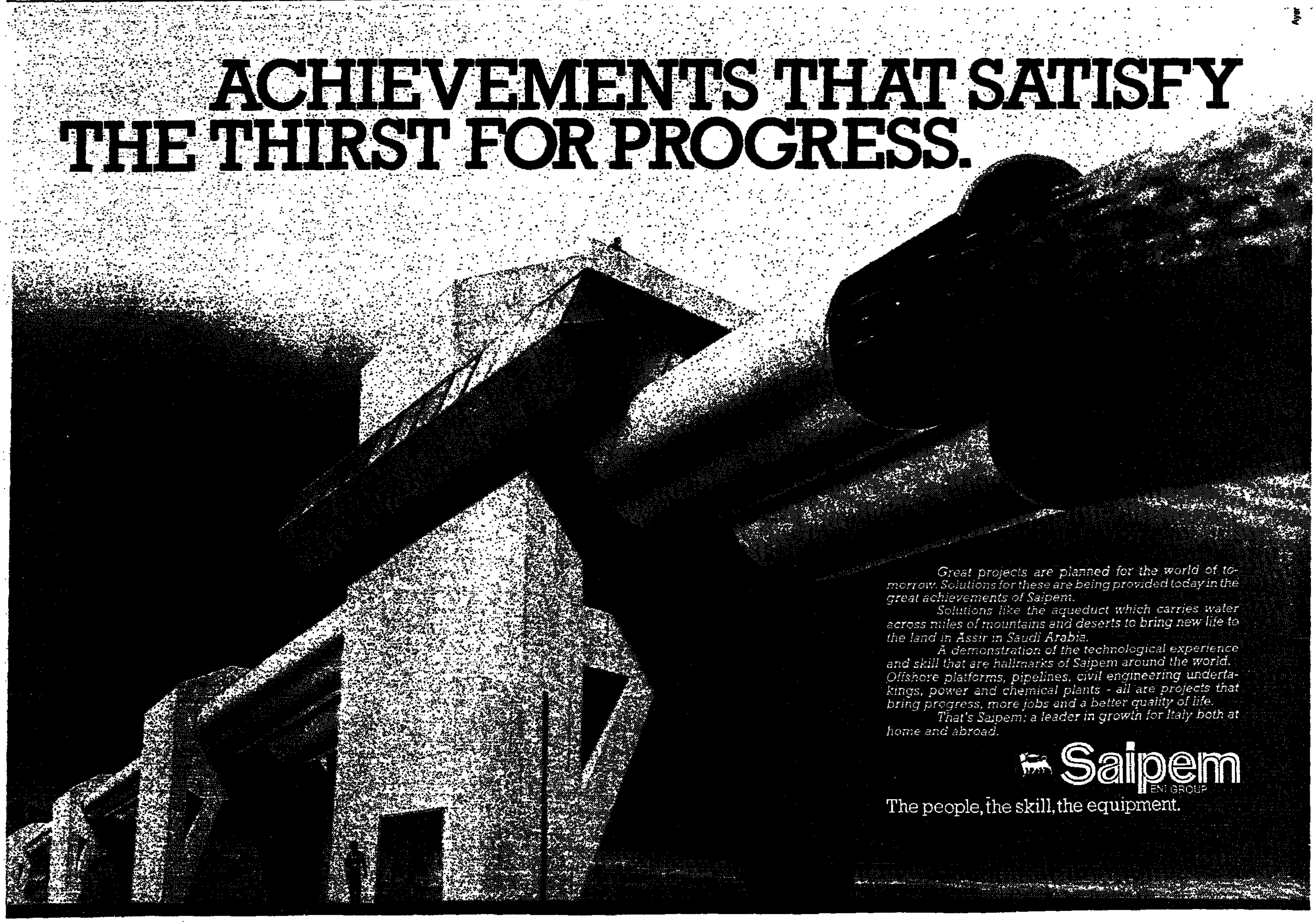
OVER 3,000 striking postal staff heeded their union's instructions and returned to work last night as talks aimed at averting an escalation of the Post Office dispute continued.

Leaders of the Union of Communication Workers and Mr Ken Young, the Post Office's Vice Chairman and Chief negotiator, embarked on detailed negotiations after both sides were reported to have made progress earlier in the day.

The Post Office last night described early talks between the two sides yesterday as "constructive and realistic."

"We have made more progress towards an agreement than at any stage in the last two and a half weeks," a Post Office spokesman said. However he added that there were still "tough issues" which remained unresolved.

Talks remained focused on the measures to improve productivity which the Post Office is seeking in return for the shorter working week demanded by the union.



Stronger semiconductor industry called for

Terry Dodsworth looks at a report on the future of the integrated circuit industry

THE UK needs a stronger indigenous semiconductor industry to compete effectively in the fast-expanding world market for information technology products.

Without access to innovative UK-based chip technology the country will fall further behind in one of the most dynamic sectors of a modern economy, becoming dangerously dependent on foreign suppliers.

These are two main themes in the report on the UK integrated-circuit industry's future lodged with the Trade and Industry Department by Mr Ian Mackintosh, a consultant specialising in high-technology issues.

He first warned about the UK position in integrated-circuit manufacturing 16 years ago, in a DTI report.

As part of the Government's current review of science and technology policy he was asked to make his recent study. In this he concludes that the semiconductor industry is faltering badly, is in need of reconstruction and should be given government research support and funds.

Since his report was presented three weeks ago some of what he sought has happened. Plessey, the leading UK integrated-circuits maker, has agreed to the takeover of Ferranti's activities and gone far towards agreeing to absorb General Electric Company's small chip making business.

This leaves two other significant UK suppliers outside Plessey's net: STC's chip division and Inmos, the Thorn EMI subsidiary which Plessey was negotiating to buy before a volte-face at the end of last month.

Mr Mackintosh refuses to comment in detail on his report. However, he would probably welcome Plessey's willingness to champion the UK industry. Even so, he would probably also say this was insufficient.

He says the whole UK industry ought to be assembled as a group with sales of about £200m, a size giving it a chance in world markets.

He believes this reorganisation is necessary because, he says, many industrialists and policy-makers, not least the City of London, are highly sceptical about the need for domestic integrated circuit making.

There are two main objections, closely interconnected. These are that:

● The semiconductor industry is highly risky and too expensive.

● The users of these chips comprise such a small part of UK manufacturing relative to the total economy that they are not worth the fuss.

The users are information-technology producers of equipment such as computers, telecommunications switches or consumer electronic goods.

Mr Mackintosh's response is also twofold:

● On IT industry significance he argues mainly on the grounds of its potential in the economy's future growth. In the UK IT goods output last year was worth £12bn, just 6.5 per cent of total manufactured items. However, in the US almost 20 per cent of manufactured goods came from the IT industry, and in Japan about 12.5 per cent.

Moreover, growth of the IT sector seems to be closely connected with the expansion of integrated-circuit making: Japan's IT industry grew rapidly in the past eight years, at a rate of almost 12 per cent, in which time it overtook the US in integrated-circuit production; the US also advanced in both fields, while European growth was "puny" in both areas.

● He goes on to contend that chip-making is vital in the production chain leading to successful IT companies. He says it is untrue that UK electronic-equipment makers can buy the very latest chips off-the-shelf at competitive prices.

For example, the anti-dumping agreement on memory chips between the US and Japan has lifted prices for European companies and means Japanese companies now have access to cheaper supplies; worse, there is evidence that UK companies suffer significant delays in obtaining export licences for Japanese chips; further, British equipment companies are denied the close proximity to semiconductor designers which helps both sides to come up with more innovative products.

He recommends that government aid be channelled more towards research, while the industry concentrates on development. He also wants:

● The defence sector's needs and funding to be split off.

● Financial incentives to inward investors halted.

● A national semiconductor technology centre to bring government, the industry and universities together on research projects.

● Fiscal or loan incentives for investment in new facilities.

All in all, it is a highly ambitious programme. But, surprisingly, much of the most controversial recommendation for the restructuring of the industry has been achieved at Plessey's hands. It is now up to the Government to show its hand as well.

Sales rise forecast by Mercedes-Benz

BY JOHN GRIFFITHS

MERCEDES-BENZ expects to sell 10 per cent more cars in the UK during 1988 than in the current record year in spite of the stock market collapse, the managing director of its wholly owned importing company, Mr Hans Tauscher, said yesterday.

Mr Tauscher said that even after sales price increases which have totalled 16.1 per cent since last December, just under 22,000 cars would be sold in the UK this year. This would represent an increase of 12 per cent over 1986. Next year car sales were expected to reach 24,000.

Commercial vehicle sales would be up by just under 10 per cent this year, to 15,000, and would reach 16,000 in 1988, predicted Mr Tauscher.

Over the same period of price increases, the value of the D-Mark has risen by about 25 per cent against sterling. Mr Tauscher said Mercedes-Benz had absorbed some of the adverse currency shift. He refused to forecast by what amount prices might rise next year but said no further increases were likely until the middle of 1988.

The company had been observing the markets "with a degree of nervousness". However, its dealers had reported no order cancellations.

Mr Tauscher said it appeared, in any case, that the UK would fare better than other European countries should a recession occur because of its sharply improved economic performance.

The downturn in the North American market could lead to Mercedes-Benz adjusting its production levels next year, he said. However, this would have no impact on car shipments available to the UK, as for some time all orders had been met from the company's UK importer.

Councils award contract for pension fund figures

BY ERIC SHORT, PENSIONS CORRESPONDENT

THE WM COMPANY, the leading fund performance measurement company in Britain, has secured the contract to produce the performance measurement statistics of all local authority pension schemes against competition from other performance measurement companies.

The Local Authority Superannuation Fund Performance Measurement Statistics of the 99 UK local authority funds has been produced until now by Derbyshire County Council on behalf of The Society of County Treasurers and Chartered Institute of Public Finance and Accounting.

WM's performance measurement service covers 60 per cent of Britain's self-invested pension funds by asset size. The inclusion of the £24bn local authority schemes will mean that the service will cover more than 1,400 pension funds accounting for more than 75 per cent of all UK pension fund assets.

The change in the system is being made to provide local authorities with performance information more quickly than it is provided by the present system. Figures for the financial year which ended in April have only recently been produced.

It is also being made to provide an analysis of investment returns for all overseas countries in which local authority funds hold investments.

WM's expertise in this field enables it to meet both these requirements. Local authorities will also be able to compare their investment performance with that of private pension funds. The WM service receives data from private pension funds on a quarterly basis and can provide statistics on a fiscal year basis for these funds.

The society will continue to provide comparative statistics for each local authority pension fund on an annual basis, from the statistics provided by WM.

Injunction stops TV broadcast

Financial Times Reporter

A TELEVISION re-enactment of the Birmingham pub bombings appeal, which was to have been shown on Channel 4 last night, was stopped by an injunction obtained yesterday by Sir Patrick Mayhew QC, the Attorney-General.

Lord Lane, the Lord Chief Justice, one of the three judges hearing the appeal at the Old Bailey, said that showing the programme - Court Report: The Birmingham Six - was likely to undermine public confidence.

Channel 4 said later that it was considering an appeal and making a fresh application at a future date. It replaced the programme with a documentary about the Triads in Hong Kong.

The judges were told by Mr John Laws, for the Attorney-General, that if the programme was broadcast when argument in the appeal had not been completed it was bound to create the risk of undermining the public's confidence "that the court gets it right".

He said actors would be representing witnesses and their characteristics would be thrust upon the public. The "intimate portrayal" of the events inside the courtroom would lend colour and criticism to what was happening during the appeal.

Mr John Mathew QC, for Channel 4, said that the programme would be based on daily transcripts of what had already been said in court. There was no risk of prejudicing the appeal judges by broadcasting the programme and he failed to see how public confidence would be so shaken as to amount to a potential contempt.

Lord Lane said that the 90-minute programme would necessarily have to be highly selective, with only a very small part of the events in court being represented.

More UK news on pages 14 and 20

Scottish paper manufacturer invests £11.5m

By Maggie Urry

G-P INVERESK, a Scottish paper manufacturer, is to invest £11.5m at its Caldwells paper mill in Inverkeithing, Fife. A new machine will increase capacity by 60 per cent to 54,000 tonnes a year.

The company also said talks were taking place with workers at its Carrongrove paperboard mill in Stirlingshire about moving from a 5½-day week to continuous working. The change would increase capacity by a third to 52,000 tonnes. Between the two mills, 75 jobs would be created.

No brief needed in arts of political knockabout

GRAHAM ALLEN the latest recruit to the heavy mob on Labour's back benches, rose to challenge Mrs Thatcher during Prime Minister's questions yesterday. He wanted to know if she would alter the current practice of ministers referring to carefully prepared departmental briefs when they make their replies.

In fact ministers of all parties, including the occupant of No 10, have always used this method as a useful prompt in order to cope with the unexpected question.

As usual on these occasions, Mr Allen was not interested in enlightenment but was seeking to score political points off Mrs Thatcher.

Did she have to refer to a brief because she did not have the wit to answer without it or was it because she had no confidence in her policies?

As the Speaker moved in to silence barracking from the Tories, Mr Allen pondered whether she did not want television cameras in the House because it would show the Prime Minister and her Question Time "as the sham they both are".

Coldly Mrs Thatcher told him that the brief was necessary in the unlikely event that there should be questions of any value from the Labour benches.

One of her favourite tactics is to drown Labour allegations in a mass of statistics from the documents in front of her - a method she has used in recent days over the state of the National Health Service. Yesterday she triumphantly repeated her assertion

PARLIAMENTARY SKETCH

that it was these facts that the Opposition found so uncomfortable.

As for television in the Chamber, she was against it because she wanted to shield the public from the terrifying spectacle of how the Opposition really behaved.

If the TV cameras are admitted there is no doubt that Kenneth Clarke, Chancellor of the Duchy of Lancaster and Minister for Trade and Industry, is one who will readily adapt to them.

Yesterday, he announced the privatisation of the British Steel Corporation with the breezy good cheer of a Father Christmas who has arrived early with his stack of goodies.

He was not at all miffed by the disapproval of that other noted television perfomer, Bryan Gould, Labour's trade and industry spokesman, who is a leading revisionist in the policy review now going on in the Labour Party.

Possibly because of the uncertainty of the great socialist rethink Mr Gould's denunciation of the Government statement was carefully worded and somewhat muted.

Resounding undertakings to renationalise the privatised industries are no longer in fashion. From the Labour back benches George Robertson tried to liven things up by complaining about the "political spivs selling off the last items of the family silver".

But Mr Clarke cheerfully reminded him of the party's policy review and said that he would be very interested to see whether in two years Labour had a commitment to renationalise steel or any other industry.

There was a fraternal intervention from Ian Gow, the Tory member who has appointed himself the scourge of former Conservative Prime Minister Edward Heath. He reminded the minister that the Conservative Party had promised in 1966 to denationalise steel when it came to power.

Mr Heath, he said, had failed to do so and it had taken Mrs Thatcher to redeem that pledge. Later Labour leader Neil Kinnock erupted after he was continually interrupted by Tony Marlow who is the Conservatives' answer to Labour's Dennis Skinner.

"One of the biggest ignoramuses in the House," was Neil's description of the Tory MP while the Speaker agreed that such backbench interventions were very unseemly.

JOHN HUNT

Further funds for Ethiopia

By Michael Holman

THE Government has donated £2m to the Ethiopia famine appeal launched yesterday by a group of UK aid agencies.

The donation, which follows a recent £2m contribution to the cost of a United Nations airlift, was announced by Mr Christopher Patten, Minister for Overseas Development, and brings the Government's help to Ethiopia so far this yearto £25m.

A disasters emergency committee, consisting of the British Red Cross Society, the Catholic Fund for Overseas Assistance, Christian Aid, Oxfam and Save the Children Fund, called for contributions to help avert a famine in Ethiopia.

BSC export boost to be sought

BY IVOR OWEN

IMPROVED opportunities for British Steel to expand its exports to West Germany and other European countries are to be be sought by the Government to further enhance its attractions to private sector purchasers, **Mr Kenneth Clarke**, the Chancellor of the Duchy of Lancaster, told the Commons last night.

He acknowledged that BSC's impressive performance in making such an emphatic return to profitability had enabled the Government to speed up the privatisation process and decide that selling it as a single entity was likely to provide the best return for the taxpayer.

Mr Clarke, chief spokesman in the Commons for the Department of Trade and Industry, stressedthat BSC's improved competitiveness meant that it was now in a position to achieve greater export penetration in West Germany and other European markets.

Mr Clarke's claims that BSC's statement that, subject to market conditions, there would continue to be a commercial requirement for steel-making at its Ravenscraig plant, near Motherwell, for at least seven years was superior to the political guarantees given in the past was hotly disputed by Labour and Scottish Nationalist MPs.

Mr Bryan Gould, Labour's shadow Trade and Industry Secretary, stressed that the success achieved by British Steel was the result of investment financed from the public purse.

He protested that privatisation would provide another example of "the taxpayer picking up the bill and the City picking up the profit".

Mr Gould described the seven-year assurance for the Ravenscraig plant as a "hollow promise" since it was dependent on commercial considerations "for which the Government will no doubt disclaim any responsibility".

To government cheers Mr Clarke contended that conditions imposed on BSC by the last Labour Government had contributed to its losses reaching a peak of £1.75bn in 1979-80 - equivalent to about £5m a day.

The successes achieved since were due to the considerable efforts of the workforce and management and not to public ownership.

Mr Clarke said privatisation would offer the steel industry "flexibility and opportunity", with freedom from the restraints of Whitehall and the controls on expenditure associated with public ownership.

Mr George Robertson (Lab, Hamilton) likened the Government to "political spivs selling off the last items of the family silver".

He protested that a vital strategic industry was about to be dumped into the hands of the private sector which had failed it so much in the past.

Mrs Margaret Ewing, leader of the Scottish Nationalists, claimed that in placing so much emphasis on commercial considerations determining the long-term future of the Ravenscraig plant the Government was "washing its hands" and attempting to evade responsibility.

She emphasised that the electoral verdict delivered in Scotland and Wales last June had gone against the Government's privatisation policy.

Mr Donald Dewar, Labour's shadow Scottish Secretary, described the assurance given about Ravenscraig as "fraudulent" since it left the plant's future in the hands of businessmen.

Stance on BCal link defended

BY TOM LYNCH

MR PAUL CHANNON, the Transport Secretary, yesterday defended his decision to warn British Caledonian that its proposed link with the Scandinavian airline SAS might lead to the Government revoking some of its route licences.

His answer to an emergency question in the Commons was greeted immediately by **Mr Norman Tebbit**, the former Trade and Industry Secretary, with praise for the Government's handling of the situation. Commentators had expected a clash between Mr Tebbit, who is opposed to the SAS link and supports the British Airways bid for BCal, and Lord Young, the Trade and Industry Secretary, who is said to favour the SAS scheme.

Mr Channon was careful to emphasise yesterday that the CAA had sole responsibility for determining whether the SAS link would remove BCal from UK control, which might cause problems over route allocations under international treaties.

If the CAA, faced with a definite proposal, formally decided that UK control was at an end, he would have a duty to decide whether to revoke route licences.

Given that the CAA had given him "informal guidance" that the proposed link would end UK control, Mr Channon argued: "It is in the public interest I should say what I am minded to do. I would be minded to revoke licences should such a merger take place on those terms."

Mr Channon shrugged off an attempt by **Mr David Steel**, the Liberal leader, to highlight alleged differences between Mr Tebbit and Lord Young, when he said Mr Tebbit was being "totally consistent" in attacking his successors at the DTI because he had been responsible for removing the public interest as the prime consideration in merger policy.

Mr Steel, whose party opposes the BA takeover of BCal, said there was a difference between control of an airline and a minority stake in it, which is what was proposed by SAS.

To laughter, Mr Channon - who is also a former Trade and Industry Secretary - said that Mr Tebbit "has never attacked me yet. I intend to see that he does not".

He gave **Mr Tam Dalyell** (Lab, Linlithgow) a "categorical assurance" that he was in line with Lord Young, stressing that he and his fellow Cabinet minister were acting under their different and respective powers.

Tony Andrews

Taking the same route: Paul Channon (left) and Lord Young leaving 10 Downing Street after yesterday's Cabinet meeting

Mr Tebbit welcomed the way ministers had handled the situation, in particular that they had made it clear they would not tolerate the foreign ownership or control of a British carrier.

Mr Channon said it would be "a very serious matter" if a British airline passed under foreign control, because foreign governments could cease to recognise its UK designation for the purpose of air licensing agreements.

"I have no power to act unless the CAA reports to me that it is its view that the effective control of a UK airline has passed into foreign hands."

Mr Peter Snape, a Labour transport spokesman, challenged Mr Channon to say what percentage of BCal he would be prepared to see in foreign hands and demanded an assurance "that any final decision in this matter will be made in the interests of air travellers and those employed in the industry."

Further cut in interest rates urged

By Michael Cassell, Political Correspondent

LABOUR last night maintained its call for UK interest rate reductions, following the latest half-percentage point cut announced yesterday.

Mr Neil Kinnock, the Labour leader, who earlier this week called for a cut in interest rates of at least 2 per cent, welcomed yesterday's move but stressed that they would have to fall by another 1.5-2 per cent before UK rates came into line with those of its main competitors.

His remarks were echoed by Mr Gordon Brown, Labour's Treasury spokesman, who said the latest rate cut would reduce industry's costs by around £150m. But he stressed that real interest rates in Britain still remained 40 per cent higher than in West Germany and 50 per cent higher than in the United States.

Speaking last night to the British Institute of Management in London, Mr Kinnock said that Britain now urgently required "a real culture of enterprise that is resilient and progressive" and which, via the development of a modern, innovative and competitive manufacturing industry, could produce a durable and sustained economic recovery.

He said it could not be achieved without the involvement and encouragement of government and, as part of a strategy for success, called for government action to extend to a deliberate policy of managing interest rates and currency values.

Without it, Mr Kinnock added, "the science of planning which is central to the act of management can be turned into guesswork as the whirl of currencies makes nonsense of the efforts to achieve better quality and volume and price of production".

Mr Bob Maclennan, the SDP leader, said yesterday that, if the world was heading for a major recession, rather than slower growth, lower interest rates would also have to be accompanied by new fiscal measures.

Mr Maclennan recommended a fiscal package, to be implemented in the next Budget if economic prospects deteriorated, which included a cut in national insurance contributions, a cut in corporation tax and greater government spending on infrastructure.

Thatcher stalls on nurses' pay

BY IVOR OWEN

STONEWALLING tactics were adopted by **Mrs Margaret Thatcher**, the Prime Minister, in the Commons yesterday when she was repeatedly pressed to give an assurance that the Government would provide adequate funds to cover the cost of the next pay increase for nurses.

Mr Neil Kinnock, the Labour leader, led demands that government parsimony should not be allowed to force health authorities to close more hospital wards in order to finance any significant award recommended for the nurses by their pay review body.

He called on the Prime Minister to "take the unusual step" of agreeing that the review body should be given guidance that the Government would provide the money needed.

To Labour cheers, Mr Kinnock contended that it would be "stupid and cruel" to ask health authorities to pay the nurses award out of cuts and closures in the hospital service.

Ignoring Labour jeers, Mrs Thatcher refused to "prejudge" the review body's findings, and explained that the Government was content to stand on its record in regard to the National Health Service.

Backed by Conservative cheers, she told Mr Kinnock that spending on the health service in his own constituency had gone up by 20 per cent under her administration compared with 6 per cent under the last Labour Government.

Mr Kinnock retorted: "Do you not realise yet that neither nurses nor patients are interested in the past? They are interested in the future."

He said the jeers of Tory MPs only provided further evidence of the fact that "by going private" they were totally ignorant of conditions in the NHS.

Mrs Thatcher replied: "The last thing the nurses want is to go back under a Labour government and have their pay cut."

PM warns of backlash at postal strike

By Ivor Owen

WHILE hoping for a "sensible settlement" of the postal workers' dispute **Mrs Margaret Thatcher**, the Prime Minister, confirmed in the Commons yesterday that in the event of a strike the Post Office's monopoly would be suspended.

Mrs Thatcher maintained that "to attempt to go on strike at this time of year would be totally and utterly cruel to business and positively heartless to all who have contact with one another through Christmas cards and presents".

Lords debate

IN YESTERDAY'S Financial Times, remarks by Lord Richardson, the former Governor of the Bank of England, on exchange rate stability in a House of Lords debate, were wrongly attributed to Lord Boardman, the chairman of the National Westminster Bank. We apologise for the error.

Labour questions cost estimates on poll tax

BY OUR POLITICAL CORRESPONDENT

THE Government was last night accused by Labour of issuing deliberately misleading figures in order to minimise the likely cost of the community charge when it is introduced in 1990.

On the eve of the publication of the Government's Local Government Finance Bill, Mr Jack Cunningham, Labour's environment spokesman, said that the recently released figures intended to show the likely levels of poll tax payable had deliberately omitted key factors. Mr Cunningham claimed that the Government had failed to build into its projections any increase in council expenditure over the interim period before the community charge was introduced or to take account of evasion or failure to collect the tax.

He said that, after allowing for an increase of 6 per cent a year in council spending until 1990 and an evasion rate of 10 per cent, the Government's projections for poll tax payments were significant underestimates.

He produced figures to show that in the London borough of Camden, for example, the Government's projected poll tax figure of £782 a head was likely to be £1,036 by the time it took effect.

In Manchester, under Mr Cunningham's calculations, the figure payable per head would be £360 against the Government figure of £272, while in Birmingham it would be £246 against a Government projection of £186.

Last night, Mr Neil Kinnock, the Labour leader, pledged Labour's outright opposition to the proposals, claiming the Government was preparing to "jump out of the frying pan of rates into the fire of poll tax".

The Labour Party is still in the process of formulating its own rating proposals and Mr Kinnock said he did not believe they had to be known before the Commons' second reading on the Local Government Finance Bill, which will take place the week after next, before the Christmas recess.

Steel has 'zest' to carry on in merged party

By Our Political Correspondent

MR DAVID STEEL, the Liberal leader, last night gave the clearest indication yet that he is prepared to consider putting himself forward for the leadership of any new party created by a merger with the Social Democrats.

Speaking on the Analysis programme on BBC Radio 4, Mr Steel said he believed he had the "zest" to carry on, providing it was the wish of his colleagues. He said he was consulting with them to establish their views.

Mr Steel's remarks came the day after Liberal-SDP joint negotiators agreed on the broad outlines of a merger package which will go to special conferences in January, where a decision on whether or not to ballot members will be taken.

The Liberal leader has said that he will make his personal position clear early in the new year, following discussions within his party. Some of those closest to him expect him to announce he will be prepared to stand as the leader of a new party.

The leadership election will not, however, be held until next autumn, six months after the new party is likely to be launched. If Mr Steel stands, a contest looks less likely.

Last night, he said that if his colleagues asked him, he would carry on. On the merger negotiations, Mr Steel criticised the size of the Liberal negotiating team, which had been dictated by pressure from party activists.

He said that without a merger, the Liberal Party would revert to its traditional role, which had amounted to that of a debating society with parliamentary representation.

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British Telecom to offer itemised billing service

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

BRITISH TELECOM is to launch *a free itemised billing service in* the New Year which will give customers a complete record of all calls costing more than about 50p.

The new programme, which follows extensive trials in the City of London area over the past 12 months, will start with 30,000 customers in London.

It will be rapidly extended to other parts of the country, reaching Birmingham, Edinburgh, Glasgow and Bristol by the spring, and about half of the company's customers outside London by 1990. In the London area, 90 per cent of customers will be covered within the next three years.

The itemised listings, giving the date, destination, duration and cost of individual calls, will *not be obligatory if customers do* not want them.

BT has been under considerable pressure for some time to introduce itemised billing, which is widely available in the US and increasingly in western Europe and the rest of the world. Mercury, the company's network competitor in the UK, already offers such a billing service. Oftel, the industry's regulatory agency, has been strongly critical recently of BT's failure to follow suit.

Oftel said yesterday that it was pleased that BT had finally responded to this pressure.

BT, which is investing £87m in the new service, said yesterday that it had delayed the launch of itemised billing until it had a sufficient number of digital *exchanges to make it worth*while.

Itemising telephone calls is only practicable using the present generation of digital switches, which record their messages electronically and can easily be connected to the computers that draw up the bills.

The pace at which the service will be introduced throughout the UK will be largely determined by the installation programme for digital switches. At present, about 14 per cent of the UK network is working on digital exchanges. BT has the most ambitious expansion programme in western Europe. By 1995 it aims to have modernised virtually all of its operations.

Suter chairman considers his options

BY MIKE SMITH

MR DAVID ABELL, chairman of Suter, the *engineering conglom*erate, was considering his options last night after Channel 4 broadcast a programme on share dealing which he had tried to stop.

The programme, called The Insiders, examined alleged transactions in the shares of several groups including Metal Closures, the metals and plastic packaging company, and engineering companies James Neill Holdings and Raine Industries.

All three are among the 20 or so groups in which Suter has built up stakes during the six years since Mr Abell took the helm. As well as looking at insider trading, The Insiders considered "concert parties" when groups of investors band together in a takeover battle.

Mr Abell earlier this week failed to win a High Court injunction to prevent Channel 4 from referring to him in the programme. *He denied ever being* involved in insider trading and said "appropriate action" would be taken if the porgramme suggested otherwise. Last night he was unavailable for comment.

The Insiders was split into two, with half concentrating on the US and half on the UK. Much of the second part concerned Suter and included excerpts of an interview with Mr Abell.

Bowyers sausage factory to close

By Christopher Parkes, Consumer Industries Editor

NORTHERN FOODS is to close its Bowyers sausage and meat pie factory at Sherburn-in-Elmet, Yorkshire, next year.

The 291 staff have been told the plant will be run down gradually and shut on March 25.

After conversion, the works will reopen next July as an egg-processing factory, employing 70 people.

The company said production of processed meat products at the factory would be transferred to other, more modern facilities in the group.

Northern is best known for Pork Farms brand processed meats, and supplies own-label products to supermarket chains.

The company said the closure was the result of falling sausage and pie sales.

The move is also expected to cost jobs at two existing Northern Foods egg facilities, in Nottingham and in Chester-le-Street, County Durham.

Northern Foods acquired Bowyers in 1985, and then closed its Amersham factory with the loss of more than 500 jobs.

Philip Stephens on the background to the cuts in interest rates

Markets call a changing tune

IF THERE WERE any remaining doubts over the extent to which Britain's interest rate policy is being driven by day-to-day shifts *in financial markets* and by events on the international stage, they were erased yesterday.

The half-point cut in base rates to 8.5 per cent - the lowest *level since March 1984 - came* just a week after Mr Nigel Lawson, the Chancellor, had cautioned against any further reduction ahead of a meeting of the Group of Seven nations.

However, as preparations for such a gathering trundle on, with little public sign of an early conclusion, it is clear that the Europeans have decided to put in place anyway most of the policy shifts it could have been expected to generate.

The triggers have been the dollar's continuing slide and the potent reminder on Monday of the still-fragile state of confidence on stock markets.

According to one insider, "coordination" is probably too strong a word for the timing of yesterday's cuts by the Bank of England and by West Germany's Bundesbank. *It was more "co-op*erative" than "co-ordinated", he said.

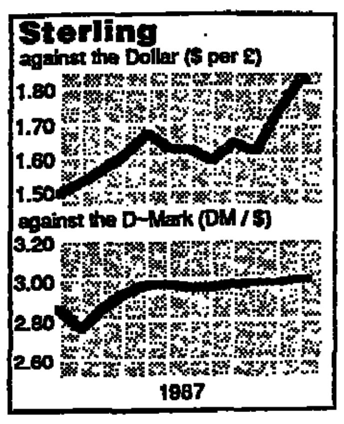
However, the British authorities were told in advance of the Bundesbank decision. There thus *seemed little point in delaying a* reduction in rates which had looked increasingly inevitable in the wake of sterling's latest gains and of Monday's renewed losses on the stock market.

The impetus towards lower borrowing costs from the exchange rate has two obvious, linked, dimensions. Since base rates last came down in mid-November sterling has appreciated by about 4 per cent against the dollar from $1.75 to $1.82. In parallel, the pound has remained close to its DM3 ceiling against the West German currency and *this week has once again threat*ened to break through it. After managing to hold the D-Mark rate with minimal intervention last month, the Bank this week has found itself being forced to resume large-scale intervention.

The logic of keeping the pound below DM3 remains unchanged - to provide a stable environment for exporters to Europe. Despite Mrs Thatcher's recent insistence that the policy is by no means written in stone, it is the one being operated.

It is also clear that the longer upward pressure on the pound continues, the harder it is to jus*tify holding it down through* intervention rather than through a downward shift in interest rates. A decision yesterday not to follow the Bundesbank could have necessitated intervention *on the massive scale seen in* October, with the consequent implication of a further acceleration in already-rapid monetary growth.

More recently the Bank, in par*ticular, has become concerned* about the effects on industry of the dollar's decline. The combination of sterling's gains so far against the US currency and the prospect of a further indefinite appreciation would hardly underpin the revival in investment which is seen as crucial to maintaining the momentum of output growth.



Alongside that, there remains official concern that the damaging impact on business confidence of continuing falls in equity prices could begin to feed on itself. The ultimate worry is that fear among industrialists of a recession could become a self-fulfilling prophecy.

If yesterday's decision was *readily explicable in these terms,* it was probably not taken as enthusiastically as the public pronouncements suggest - at least in the Bank of England.

Since the stock market crash *began on October 19, base rates* have fallen by 1.5 points in three stages, with the initial cut a response to fears of a drain on liquidity and the next two linked more directly to the exchange rate.

If the negative impact on demand in the economy of the crash turns out to be significant, the authorities will be seen to *have taken the right decision.*

But there remain uncertainties which could make the speed of the reductions look rash - judged at least against the Government's anti-inflation rhetoric if not against its record.

Most obviously, domestic inflationary pressures in the economy hardly look reassuring. The latest, admittedly historical, statistics suggest that output has continued to grow strongly. Wage demands are rising if anything - witness the disputes in the car industry - while the broad measure of the money supply, M3, has been rising at an annual rate of more than 20 per cent.

The rise in the exchange rate - which is likely to depress import costs and limit price increases for domestically produced goods - provides an offset. However, the overall domestic environment is not one in which the Bank would normally be signalling cuts in interest rates.

On the international side, there was also no clear indica*tion that the European moves* would be enough to persuade the US to give an unequivocal commitment to play its part in stabilising the dollar. Britain and West Germany regard such a *pledge as an essential precondi*tion of a successful meeting of the Group of Seven.

Against that background the subdued reaction yesterday of foreign exchange and bond mar*kets looked well-judged.*

Fund raises £31m for rented housing

BY ANDREW TAYLOR

*The Housing Finance Corpora*tion, a fund-raising body which the Government hopes will play a major role in encouraging greater private investment in rented housing, yesterday raised almost £31m with its first issue.

The corporation was established recently to raise private capital for voluntary housing associations, which were funded previously almost entirely by government grant.

Mr Graham Axford, corporate finance director of James Capel, the stockbroker which handled yesterday's placing of two debenture stocks, said the corporation could raise between £250m and £500m next year if interest rates stayed near their present level.

Under proposals in the Housing Bill published last month, housing associations will be required to raise an increasing proportion of their funds from the private sector. Rents on new lettings will be expected to be high enough to allow investors a satisfactory return.

The cash raised by the placing will finance schemes for six housing associations owning more than 16,000 homes in London, the Midlands and north-east England. The largest scheme is a *£9m conversion of an office* block to 56 two-bedroom flats and 22 one-bedroom flats for *Brent People's Housing Associa*tion in north-west London.

Other housing associations to *benefit from the issue are: Chev*iot Housing Association, Newcastle upon Tyne; Copec Housing Association, Birmingham; Coventry Churches Housing Association and Coventry Churches (Second) Housing Association and Metropolitan Housing Trust, north London.

Most of the schemes will rely exclusively on private investment. Less than £2m of the *money raised by the corporation* will be used in association with housing association grants, representing no more than 30 per of the total cost of a project.

About 50 institutions are *expected to have taken part in* the placing. The two stocks were a 5 per cent coupon debenture dated 2027 and a zero coupon debenture dated 2012.

The 5 per cent stock was *priced at £47.16 per cent, giving* a gross redemption yield of 10.786 per cent and raising £24.03m. The zero coupon bond was priced at £7.187 per cent, giving the same redemption yield and raising £6.72m.

The Housing Finance Corporation was launched by James Capel and Cipfa Services, the commercial arm of the Chartered Institute of Public Finance and Accountancy. *It is sponsored by* the Housing Corporation, which administers grants to more than 2,500 housing associations, and the National Federation of Housing Associations.

MPs question efficiency of MoD training budget

BY LYNTON McLAIN

THE MINISTRY of Defence's £1.26bn annual training budget, 7 per cent of the defence budget last year, is not spent efficiently, the Commons' public accounts committee said yesterday.

The committee, in a report, identified weaknesses in the processes of the army and navy for validating the "relevance and effectivensss of training courses in achieving the performance standards required operationally."

The MPs said they found no evidence to suggest *that* individual training in the armed forces lacked effectiveness "but much evidence gave cause for concern over the economy and efficiency with which resources are used to provide this training".

At the same time, there had been a "persistent shortfall in the amount of training actually carried out against the number of trainee days planned".

In 1984-85, the shortfall was 17 per cent. "Moreover, it was not clear whether even the planned level of training would represent full use of the resources of training establishments, since the services do not assess the maximum capacity of each establishment."

The MoD had accepted that the Royal Navy had not employed enough staff on validation of training courses to see if they were cost effective.

On the training of service musicians, the committee recognised that factors other than financial ones entered into the ministers' decision not to go ahead with an integrated defence school of music. "The committee welcomes the fact that the decision was taken on the basis of the reliable assessment of the financial implica*tions which the committee had* called for in a previous report."

Eighth report from the Committee of Public Accounts, session 1987-88, individual training in the armed services; the proposed defence school of music. House of Commons paper 153. HMSO. £3.90.

ITV says independents to get £42m commissions

BY RAYMOND SNODDY

THE ITV Association, which groups Britain's 16 commercial television companies, claimed yesterday that £42m worth of commissions for independent producers were in the pipeline.

The figure compares with £20m at the end of August.

Mr David Shaw, director of the association, said yesterday: "Given the complexity of the issues, not only for the independents but also for our federal system, we have made considerable progress since talks began in May."

The programmes concerned were not listed and Mr Paul Styles, director of the Independent Programme Producers Association, was sceptical that many would meet the criteria for independent production.

Mr Douglas Hurd, the Home Secretary, has made it clear that he wants independents to gain access to 25 per cent of Britain's four national television channels.

The claim about commissions comes as independent producers are on the point of breaking off negotiations with the ITV Association on terms of trade for independents making programmes for the ITV network.

The ITV Association is insisting on guidelines that would give each company the right to negotiate individual deals with independent producers.

IPPA is adamant that there should be a national framework which would set standards for such things as production fees the independents' profit.

"If we accept ITV guidelines there will be no independent sector in two years. We will all have gone bust," Mr Styles said yesterday.

Unless agreement can be reached, the IPPA is considering issuing guidelines for members, whether or not they are accepted by the ITV Association.

The independents also plan to press for a formal tendering process when they seek commissions from ITV companies.

The IPPA believes its members are increasingly being used as a stick to beat the in-house television unions, rather than a source of programme ideas.

It is understood that several independents submitted packages to Thames Television for 100 episodes of The Bill which were more than £1m cheaper than the in-house price. Thames has been using this to try to get its staff to accept more flexible working practices.

Apology - Guinness affair is a long time brewing

IN AN article under this heading which appeared in our issue of December 2 we published an account of what the writer alleged took place when Mr Ronson attended at a police station with his solicitor Lord Mishcon and was arrested. We now find that this account was quite inaccurate as to what transpired and as to what Lord Mishcon and the police are supposed to have said and indeed that the words attributed to Superintendent Botwright were not said.

It was further stated that Mr Ronson, his counsel Mr Sherrard QC and Lord Mishcon as his solicitor had been responsible for a letter to Guinness which omitted certain material facts.

We acknowledge that Mr Ronson has stated from the very commencement of inquiries into this matter that he has acted with total frankness and that he has done nothing dishonourable let alone dishonest. We accept that it would be quite wrong to suggest that his legal advisers in their professional duties would have advised him to make any such omissions.

We unreservedly apologise to Mr Gerald Ronson, Lord Mishcon and Mr Michael Sherrard QC for the offence which we realise must have been given.

Hardline Unionist dies of gun injuries

By Our Belfast Correspondent

MR GEORGE Seawright, Northern Ireland's most outspoken Unionist politician, died in hospital yesterday two weeks after being shot by Republican gunmen in Belfast.

He had been expelled from the Rev Ian Paisley's Democratic Unionist Party after a speech in 1984 in which he said Roman Catholics should be burned.

Mr Seawright, who was 36 and born in Glasgow, settled in Northern Ireland in the early 1970s. He came to political prominence in 1981 when he won a Belfast City council seat for the Shankill area.

His uncompromising hardline views made him popular with the loyalist electorate and in 1982 he won a seat in the ill-fated Northern Ireland Assembly.

Mr Seawright vehemently opposed the Anglo-Irish agreement. His protests led to a series of court appearances culminating, in October last year, in a prison sentence arising out of disturbances during a visit by Mr Tom King, the Northern Ireland Secretary, to Belfast City Hall.

The nine-month sentence disqualified him from the council. But his wife, Elizabeth, won the vacant seat.

The gun attack on Mr Seawright was claimed by the Irish People's Liberation Organisation.

Lamont outlines tax plans for directors of small companies

BY CHARLES BATCHELOR

THE GOVERNMENT is examining ways to give to directors of small companies backed by Business Expansion Scheme funds the same tax relief available to investors, Mr Norman Lamont, Financial Secretary to the Treasury, said yesterday.

By law, anyone actively managing a BES-funded company is excluded from tax exemptions available to investors, who may put up to £40,000 a year tax-free into BES companies.

Mr Lamont was speaking at a forum on venture capital sponsored by the Financial Times and the British Venture Capital Association. He said: "We have had a review of section 79 [the Finance Act section covering this aspect].

"We want to make it possible for the entrepreneur to put his own money into the venture. The present situation is something of a nonsense."

The association has been lobbying for a change in the law but has encountered Inland Revenue objection that extension of BES tax relief might be open to abuse.

Mr Lionel Anthony, association chairman, outlined other changes for which the association is pressing:

- A tax concession to enable a manager working for a big firm to accumulate funds which would allow him to start a venture of his own.

Mr Anthony said giving such people relief on previous income tax they had paid would enable

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them to have a capital sum to put into a new venture.

A maximum level of relief of £100,000 would be appropriate; the venture's affairs would have to be properly audited to prevent potential abuse; rules would be needed for types of venture qualifying for this relief.

- Shares issued to directors of companies under so-called ratchet arrangements should be liable for capital gains tax rather than income tax. Ratchets allow managers to raise their shareholding in a company if financial targets are met.
- More generous criteria for young companies' share-option schemes. Under existing rules companies may give options to executives equivalent to four times their salary, or £100,000, whichever is smaller.

Mr Anthony said small companies were usually unable to pay large salaries to directors, anyway, so to compensate they should be allowed to give options equivalent to six times a director's salary.

Mr Lamont urged the British venture capital industry to do more to help small companies in the regions. More than 60 per cent of investments last year went to south-east England and London.

He suggested:

- More regional funds should be developed: at present they were small, accounting for 6 per cent of sums raised by independent funds in recent years.
- Larger national funds should co-operate more closely with existing regional funds.
- Venture-capitalists should improve communications with small businessmen in the regions who did not always know where to raise finance.

The Government was looking at ways to improve access to its own services for small businesses. Venture capital funds could ensure that local enterprise agencies put them on their contact lists.

Mr Lamont said some venture capital target markets - such as high-technology companies in the Thames Valley looking for expansion capital - were well provided for; however, other sectors were less well served.

"I think, rather, that there are now more opportunities than ever for fund managers to be ever more venturesome. There are still fields, relatively uncultivated, where new crops could be grown," he said.

Banking group sets up fund for investment

By Charles Batchelor

BROWN SHIPLEY, a small merchant bank group, has made its first formal move into the venture capital field with the creation of a £24m development capital fund.

When it first announced its intention to establish a fund last December it set a target of £15m.

Mr David Wills, in charge of venture capital activities, said he believed this amount was exceeded because many institutions which backed Brown Shipley suspected the market for quoted stocks was "toppy".

He added that the recent stock market crash had not had an adverse impact on the fund because most institutions were already committed to subscribing.

Brown Shipley intends to devote the fund to later-stage investments in young but established companies, to refinancing companies when shareholders want to sell out and to financing management buy-outs and buy-ins.

The fund has been set up as a UK limited partnership. These are becoming increasingly popular following an Inland Revenue ruling in May which clarified their tax status.

Brown Shipley has a three-strong team of venture capital executives headed by Mr Wills.

Shipwreck families free to claim compensation

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

BIBBY TANKERS, the owner of the bulk carrier Derbyshire, which sank off Japan with the loss of all 44 people on board seven years ago, could face compensation claims by relatives of crew members as a result of a ruling by five Law Lords yesterday.

They allowed an appeal by the family of the ship's third engineer on a preliminary point of law - whether a ship was "equipment" under the 1969 Employers Liability (Defective Equipment) Act.

The test claim by the family of Mr Leo Coltman against Bibby Tankers alleges that the loss of the Derbyshire was due to defective construction and design which made her unseaworthy.

The claim includes a plea that the defects were in "equipment" provided by the owner within the meaning of the act.

The Court of Appeal had barred the claim on the ground that the act defined equipment as including "any plant and machinery, vehicle, aircraft and clothing". The court ruled that this did not cover an ocean-going ship such as the Derbyshire.

Lord Oliver said the manifest purpose of the act was to saddle the employer with liability for defective plant of every sort with which the employee was compelled to work.

The judge could see no ground for excluding particular types of chattel merely on the ground of their size "or the element upon which they are designed to operate."

The express inclusion in the definition of all vehicles and all aircraft militated strongly against any such distinction, he said.

The Law Lords rejected Bibby Tankers' argument that a vessel such as the Derbyshire was akin to a factory or workplace, to be distinguished from the working tools or machinery provided for employees.

Isle of Man employment continues to improve

UNEMPLOYMENT on the Isle of Man has dropped below 5 per cent despite an influx of more than 2,500 new residents in the past 18 months.

Rapid expansion of the island's offshore financial services industry is fuelling economic growth and increasing inflation slightly to 5 per cent. It has also spawned 17 major office and retail developments in the island's capital of Douglas this year.

Ian Hamilton Fazey on the forces behind Manx economic growth

New jobs have therefore appeared not only in financial services but also in the construction industry. A combination of skill shortages and only 1,330 people now out of work is encouraging a growing belief that the island may be nearing full employment.

Unemployment was at 8 per cent only a year ago, but falling steadily. At the same time, the island's government was encouraging immigration, particularly of people setting up or expanding financial services companies, since they bring long-term jobs for young people and help to halt their emigration to the UK in search of work.

The population, which 10 years ago was in decline, is now up nearly 4 per cent on the April 1986 census of 64,282 people. Among the attractions on offer are a single rate of income tax of only 20 per cent and higher tax thresholds than in the UK.

For example, married couples have a £6,000 allowance whether or not both are working - compared with the UK married man's allowance of £3,795 for himself and a non-working wife. The UK's single-person allowance is £2,425 compared with £3,400 on the island.

Also, UK residents with a taxable income of more than £41,200 still pay tax at 60 per cent, compared with 20 per cent on the Isle of Man.

Some of the immigrants came from the UK, while others were already expatriate British citizens. Mr David Cannan, the island's finance minister, is particularly pleased that people and companies have been moving in from the Channel Islands.

In this latter case the Isle of Man has been exploiting several factors. Overcrowding in the Channel Islands has forced up property prices and led to tight controls over work permits. By contrast, the Isle of Man measures 221 sq miles and is comparatively unexploited. Work permits are no problem for professional or skilled people.

The sudden growth has put pressure on office space, hence the rash of developments.

FINANCIAL TIMES
SURVEY

In the June general election, the Scots humiliated the Conservative Party. But, far from retreating into a bunker, the Government has embarked on a set of policies whose objective is to transform Scottish attitudes, reports **James Buxton,** Scottish Correspondent

Goodbye to paternalism

LORD YOUNG, the Industry Secretary, did not mince his words when he visited Scotland a few weeks ago. "Stop being sorry for yourselves," he told an audience of many of the most influential people in the country. "You actually have a great deal going for you in Scotland, if you just look at the positive and don't go round moaning."

Lord Young was giving vent to a frustration that many English people - and not just ministers - feel towards the Scots at the moment. They believe the Scots grumble too much. When they come to Scotland they are usually impressed by this compact, orderly and often very beautiful country, with its enviable national identity and small, inter-woven national elite.

The visitor will be deeply depressed, however, if he travels up the Clyde from Greenock to the edge of Glasgow, seeing the succession of derelict or decaying sites where once Scotland's heavy industry prospered. On the other hand he would find that Glasgow itself was fighting to revive itself with more vigour and more success than most other major British cities that have lost their industrial base.

He might be guided to the horrifyingly run-down housing estates on the outskirts of Glasgow or even of Edinburgh, where poverty, unemployment and social breakdown are crammed into what are effectively ghettos. But he would still find some of the highest standards of living in Britain when he visited Aberdeen.

And although Scotland has the third highest unemployment rate in Britain (at 12.8 per cent), if he turned to the latest volume of Regional Trends he would find that it also had, on 1985 figures, both the UK's third highest Gross Domestic Product per head and its third highest level of disposable income - coming after only the South-East and East Anglia.

Yet the fact is that Scotland is discontented. In the June general election the Scots humiliated the Conservative Party. The Tories' opponents voted tactically and defeated the Conservatives in 11 of the 21 constituencies that they held. Labour won 50 of the 72 Scottish seats. No other part of Britain rejected Thatcherism so decisively. But, because the Tories won the election in the UK, the Scottish vote was little more than a frustrated protest.

Now, however, that protest has acquired solid form. Last month the Labour Party front bench presented a parliamentary bill which would give Scotland its own legislative assembly and take out of the hands of Westminster and, presumably, the Conservatives, responsibility for Scotland's internal affairs.

The bill is unlikely to obtain a second reading in the House of Commons but an important marker has been put down and the devolution issue will not now go away. It did not, as might have been supposed, die for a generation in the fiasco of the 1979 referendum when Labour's proposals failed to win a sufficient majority.

Why did the Conservatives do so badly? They were perceived as being anti-Scottish, particularly in the person of Mrs Margaret Thatcher, the Prime Minister, whose voice and personality exemplify for Scots the type of English person they most dislike.

They were considered anti-Scottish mainly because of the drastic economic transformation which has occurred during their period of office - the virtual disappearance of the remaining heavy industry, the severe problems faced in other manufacturing, and the sharp rise in unemployment.

And just when other deprived parts of Britain were beginning to pull out of recession Scotland was hit by a further wave of closures caused by the collapse of oil prices in 1986. After such a bad year for the Scottish economy it was not surprising that the electorate was in an unsympathetic mood in June 1987.

Yet the years of industrial destruction were also years of revival in some economic sectors, of a new wave of investment by the mainly foreign-owned electronics industry and of rising personal wealth for a good number of Scots. A long-term revival of the Scottish economy has to be based on the growth of indigenous enterprise which, though reasonably strong in the east of Scotland, is weak in the west. There is little doubt that a revival has begun. Yet not all the Scots who have done well under Thatcherism voted Conservative at the last election.

The Scot who lives in the central belt of the country often cannot see why heavy industrial plants like British Steel's complex at Ravenscraig should not be as permanent and inspiring a feature of life as Norwich Cathedral is to an inhabitant of Norfolk. A solicitor living in Aberdeen cannot see why the Government should, through its higher education spending cuts, threaten his children's future by imperilling the local university.

The idea of creating a Scottish assembly with some tax-raising powers may not be the top of such people's priorities. But an assembly would offer them a way of preserving their methods of local government, education and housing from what they may see as an alien Government.

As the Government tries to goad reluctant local authorities into implementing the community charge or poll tax in April 1989, its opponents can reflect that a Scottish assembly would be most unlikely to impose such a tax.

All political parties except the Conservatives offer some form of home rule for Scotland, and there are some in the Tory Party who favour devolution. But the Government's opposition to it has firm backing from the business community who fear both the medium-term disruption that the creation of an assembly would cause, and the threat of higher taxation under what they expect would be a Labour-dominated assembly.

Yet the arguments for an assembly are presently couched very much in terms of Scotland escaping current Government policies: many would like plans for it to go further and include the preservation of the Ravenscraig steel plant, where a Government guarantee expires next summer. The assembly sometimes seems designed mainly to preserve the status quo.

That is something the Government has decisively and perhaps unexpectedly set its face against doing. Far from retreating into a bunker and trying to avoid presenting a target to its opponents, it is embarking on a set of policies whose stated objective is nothing less than the transformation of Scottish attitudes.

In an important speech at the beginning of the autumn Mr Malcolm Rifkind, the Scottish Secretary, said: "Quite consciously and quite deliberately we are determined to change many of the attitudes and policies which have dominated Scotland for years and which are responsible for many of Scotland's social, economic and industrial problems."

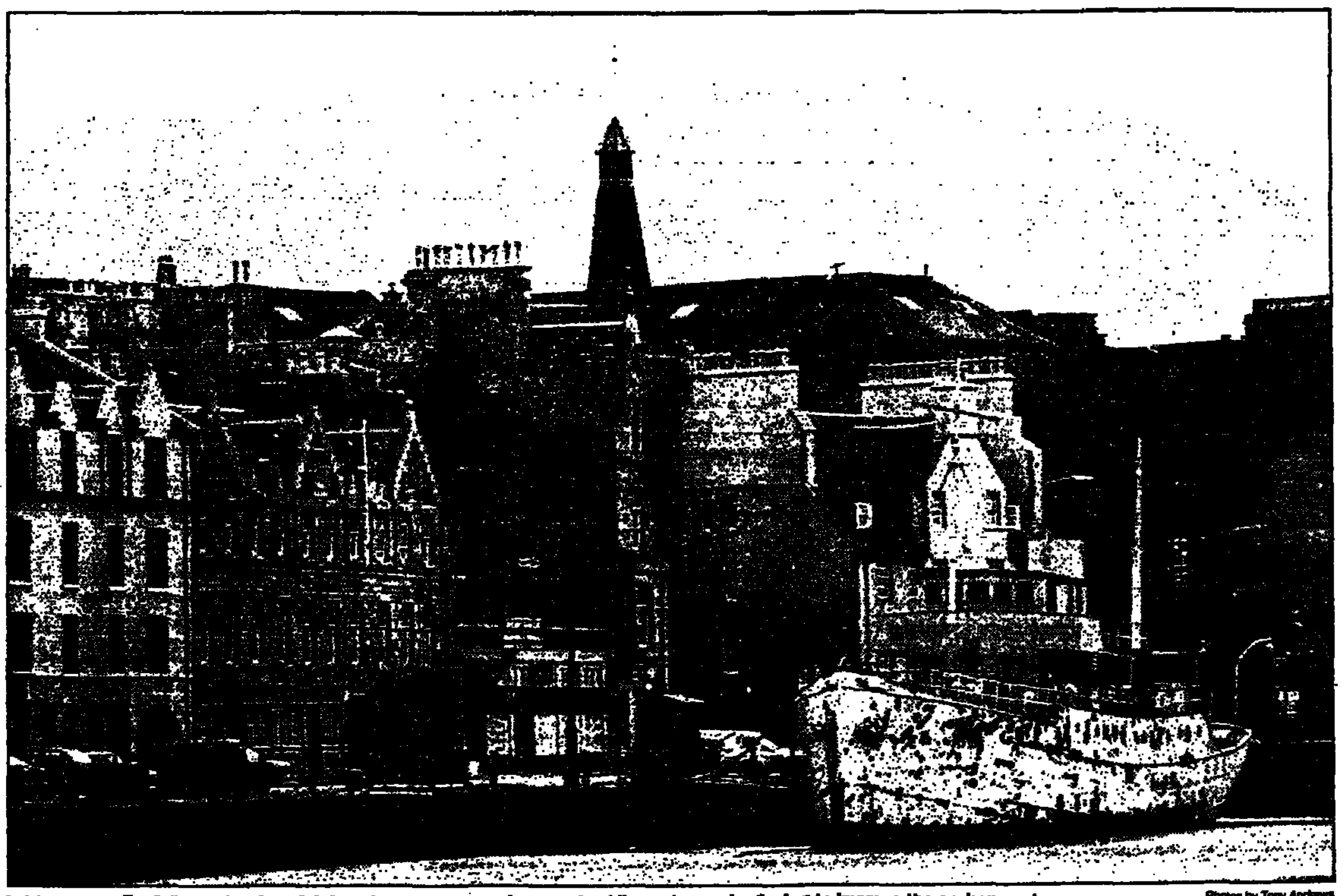
That, he said, meant assaulting the "paternalist culture" under which people expected "benevolent bureaucrats, paternalist councils and omnipotent governments to assume responsibilities on their behalf."

The main planks in this policy are an attempt to break up the vast council housing estates by allowing tenants to switch to private landlords or co-operatives: an agency called Scottish Homes, which could have the same catalytic effect on housing as the Scottish Development Agency has had on the economy, is to be set up.

The Government wants to create school boards composed mainly of parents which could have considerable - and for Scotland unprecedented - powers over the management of schools. The poll tax, it is argued, extends financial responsibility for local government to the previously privileged group who do not currently pay rates. The intention, as Mr Rifkind has said, is to stimulate "an enterprise culture, an innovative temperament and a self-confident national character."

Both the education policy and the poll tax are being fiercely criticised, and not just by special interest groups. The housing policy also has strong critics. It might be argued that in political terms the Government is taking unnecessary risks. Mr Alick Buchanan-Smith, the former Energy Minister who declined office after the election, has said publicly that the Government is wrong to step up the dose of Thatcherism, insensitive to ignore Scots' desire for better services rather than tax cuts and insulting to imply that all parts of Scotland lack enterprise.

The Government's policy is likely to mean conflict and political uncertainty. Yet in an economic environment where so much that was created by the once vigorous Scottish enterprise culture of the 19th century has been destroyed, any government has to try to rekindle a spirit of enterprise and of enterprising behaviour. It can be questioned whether its methods are right. And it seems unlikely that the Scots will stop moaning, whether they eventually get an assembly or not.



Leith Docks, near Edinburgh, where joint ventures between private and public sector are beginning to improve the environment

Photos by Tony Andrews

Scotland

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Only this year has the economy shaken off its gloom

Why the optimism must not be overdone

IF BUSINESS confidence can be regarded as a valid economic indicator, then the Scottish economy passed a turning point earlier this year.

From the late spring onwards surveys of Scottish businessmen have not only reported a clear preponderance of optimists over pessimists: the degree of optimism expressed was, according to the Confederation of British Industry, greater than had been felt for more than a decade.

The rising confidence has been fuelled by increased demand as the expansion of the UK economy has at last penetrated Scotland. But it arrived late: unlike most of Britain, Scotland had a bad year in 1986. The collapse of oil prices destroyed about 20,000 jobs, not just in the Aberdeen area with its offshore services but in engineering plants, both heavy and light, all over the country. Last winter there was a stream of closures and large scale lay-offs all over Scotland.

Only this year has the economy shaken off its gloom. Unemployment has been falling almost without interruption since the beginning of this year. After the drastic shake-outs of the early 1980s, several major Scottish companies with operations south of the border are doing well.

There is evidence that a new generation of medium-sized Scottish companies is emerging. As in the rest of Britain, companies in Scotland are benefiting from the revolution in attitudes of both labour and management.

In the past few months Scotland has achieved a series of successes in attracting foreign companies to establish plants, especially in the electronics field. It beat other European countries to persuade Ford to locate its new European electronic components plant at Dundee - an unemployment black-spot which until recently had a dubious industrial relations record.

Though manufacturing employment has contracted no less drastically in Scotland than in the rest of Britain, the fall has been partially offset by a rise in employment in the service sector. In particular, the Scottish financial services sector - the banks, life assurance companies and fund managers - has done reasonably well out of the UK boom in financial services and has seen its employment rise by 27 per cent in the past decade.

Scottish industry often shows a sad lack of initiative in responding to the multinationals' demands

Thus Government ministers can plausibly paint the picture of an economy taking firm steps forward after the traumatic changes that have been brutally compressed into a few years. Yet the optimism must not be overdone. Unemployment, at 12.8 per cent on a seasonally adjusted basis, is the third highest in the UK, lower only than that of Northern Ireland and the North-East. There are depressing black spots of unemployment and deprivation in the Glasgow area.

Even as new jobs are promised by incoming companies in high tech industries, the haemorrhage of heavy industry continues: the Scott Lithgow shipyard on the Lower Clyde is likely to go into mothballs in a few months if it does not receive any more orders - employment there, which was 8,000 a decade ago, is now around 1,000 and most of these jobs look certain to disappear. Caterpillar closed its tractor plant near Glasgow a few weeks ago with the loss of 1,200 jobs - the consequence of the US parent company's difficulties. Babcock Power, which makes power station equipment, is seeking yet more redundancies as UK power station orders still do not materialise.

Though these job losses may be part of the structural transformation of the Scottish economy, there are still serious weaknesses within it. With the offshore supply industry still going through difficult times - and never having established as powerful roots as it should have done - the promising economic sectors in Scotland are few: high quality textiles, paper and forest products are among the most hopeful, with big investment programmes going ahead, while the long decline of the whisky industry may at last be over. While most farming is in the doldrums, fish farming is doing well.

Silicon Glen, the electronics industry, is a good example of both the strengths and weaknesses of the Scottish economy. Scotland has been very successful in attracting US and Japanese electronics companies to locate in the central belt and has good chances of luring yet more foreign manufacturing companies to Silicon Glen.

But the hopes, formerly expressed by the Scottish Development Agency, that the existence of the branch plants would spawn a strong indigenous Scottish electronics industry have not materialised. Part of the reason lies in the fact that the multinationals do hardly any marketing and little research from Scotland, so the possibilities for executives to spin off part of the business are very limited.

But Scottish industry has often shown a sad lack of initiative in responding to the multinationals' demand for components. Again, there are sometimes good reasons why it is hard to meet some of their more specialised needs. But it is difficult to understand why International Business Machines cannot find a single producer of plastic mouldings for its personal computers in Scotland. Some of the explanation appears to lie partly in the weakness of the enterprise culture among 20th century Scots - at least those who have not left Scotland.

The rekindling of that enterprise culture is a major objective of Government policy for Scotland. The Scottish Development Agency advises and helps finance businessmen, and has helped create about 40 enterprise trusts all over Scotland. New businesses are being created, existing businesses are being better run, but if statistics are any guide, the Scots are not doing as well as they should.

They make up 9.6 per cent of the UK population, but their share of new VAT registrations, of business enterprise schemes and of participation in the Manpower Services Commission's enterprise allowance schemes is around 6 per cent of the UK total. Scotland has the second lowest proportion of people in self-employment of all the regions in Britain.

Enterprise is not the only ingredient of economic success: education, training, research and development are among other vital elements. Here, Scotland's problems may be said to be closer to those of the UK as a whole. But will Scotland's efforts to improve its economy be negated by the drift of economic power in Britain to the South-East?

Emigration to the South drains away some of the brightest Scots and keeps the population static. Businesses wonder whether they should relocate nearer Heathrow. Scottish companies continue to risk losing their autonomy and being taken over by predators from the South, as Distillers and Coats Paton were in 1986. It is at least a moot point whether even a re-invigorated Scotland can resist these pressures.

James Buxton

The Scott Lithgow yard at Greenock, likely to go into mothballs soon

Politics

Assembly's verdict

EVERY MONDAY evening for the past few weeks the Scottish public has been able to watch a television confrontation between Ministers and a scientifically balanced cross-section of 100 Scots.

Sometimes the audience on the programme, Scottish Assembly, raises points based more on prejudice than fact. Yet Ministers, ranging from Mr Nigel Lawson, the Chancellor of the Exchequer, to Mr Ian Lang, Scottish Office Minister for Local Government and Industry, must have left the studio well aware that their policies command little support in Scotland.

The Conservative Party reacted to its general election disaster in Scotland - when it lost 11 out of its 21 seats - in two ways. First, it started a major strengthening of its central organisation, installing the robust former minister Mr John MacKay (who lost his seat in the election) as chief executive. Although not all the new posts being created in the organisation have yet been filled, Mr MacKay has already taken a much more assertive line in promoting Government policies and attacking the Labour opposition.

The other part of the strategy is the determination to press ahead with Thatcherite ideas which are known to be unpopular in Scotland. Rather than diluting Conservative policy, the Government is stepping up the dose. Mr Malcolm Rifkind, the able and politically agile Scottish Secretary, is presenting the strategy in a series of weighty speeches as an attempt to make Scots less dependent on paternalistic authority and more disposed to take responsibility for their lives.

The first of these policies to be put to the televised Scottish Assembly was the community charge, to be introduced in Scotland in 1989, a year ahead of the rest of Britain. The sample rejected it by 71 votes to 29.

A week later the Assembly considered the Government's proposals to create school boards on which parents would be in a majority and which would have the right of veto over the appointment of headmasters. They could eventually acquire control over school budgets and the right to appoint all members of staff.

The scheme is the work of Mr Michael Forsyth, the 33-year-old Scottish Education and Health Minister, a man strongly committed to Mrs Margaret Thatcher's ideas. But it has been heavily criticised both on philosophical and practical grounds by a wide range of bodies in Scotland.

Put by Mr Forsyth to the Scottish Assembly, the scheme was rejected by 84 votes to 16, although a majority of 59 to 41 believed parents should have more say in the running of schools.

The Government's housing policy, which aims to loosen the local councils' grip, fared rather better under Lord James Douglas-Hamilton, the Scottish Housing Minister, though a majority still believed the changes to be unnecessary. When Mr Kenneth Clarke, the Industry Minister, faced the Assembly only 11 people out of 100 disagreed with the idea that the Government should keep the Ravenscraig steel plant open, even if British Steel wanted to close it.

Mr Lawson was able to claim success of a kind when 34 out of 100 people said that his economic policies were good for Scotland, since this is 10 per cent more than the vote the Conservatives won at the general election. But only 13 out of 100 voted for another 2p cut in income tax rather than more government spending.

Political analysts can ponder on the reasons for, and indeed the significance of, this rejection of Tory Party policies in Scotland. But the votes underline what a hard task the party has set itself. Furthermore, the shake-up at the party's Central Office in Edinburgh must spread out to the constituencies if the party is to have any hope of making an electoral recovery.

The Conservatives do not control a single regional or island council, and run only four of the country's 53 district councils. They could face further severe embarrassment at the district council elections next spring. Lord Goold, the party chairman, admitted recently that many local party organisations had not even begun preparing for them.

If the Conservatives are fighting from a position of weakness, Labour's very strength is a potential source of peril. The failure so far of the party's 50 MPs to make a successful showing at Westminster and the limitations which the Scottish Office places on the vast blocks of Labour power in Scottish local government are a recipe for severe frustration.

This feeling almost boiled over when the Scottish Labour Party held a post-election conference in Edinburgh a few days ago. The left pressed for a mass campaign of non-payment of the poll tax and revived suggestions that the party should immediately create an assembly in Scotland following the inevitable defeat of its devolution bill.

Though Mr Donald Dewar, the shadow Scottish Secretary, was able to fight off both protests, his strategy of the "long haul" to obtain devolution and defeat the poll tax nationally is bound to be under constant strain. He has to steer a narrow path between pressing for devolution and avoiding any charge of separatism, which he told the conference would be electorally disastrous. It would put Labour on the same path as the Scottish National Party which won only 14 per cent of the vote in the general election.

The SNP had a miserable election, losing to Labour both the seats it had held: that of its leader Mr Gordon Wilson in Dundee and the seat it had had for 17 years in the Western Isles. But it won three from the Conservatives in North-East Scotland.

Of these by far the most important was Banff and Buchan where the victor was Mr Alex Salmond, a 33-year-old economist. On the left of the party, he is a very effective debater and television performer. At the party's conference in September, where Mr Wilson made clear that he was staying on as chairman, Mr Salmond became a vice-chairman of the party and, in effect, its deputy leader. The SNP calls Labour's MPs the "feeble 50" and aims to exploit every slip they make.

James Buxton

Oil supplies industry

Relief some way off

"THE MAIN short-term impact of the fall in oil prices has probably already been felt," said the Government last month, in reply to a report by the Commons Energy Committee on the woeful effects of low oil prices on the North Sea supplies industry.

While the Government can happily point to the growing number of proposed oil and gas developments and talk of renewed confidence in the North Sea, the industry itself must feel about as encouraged as a starving person who is assured of a good feed in fortnight's time.

Although the worst is probably over for the offshore suppliers, there is no sign of things getting better quickly. While the oil companies themselves are in far stronger shape than this time last year, bolstered by almost a year of oil prices at a steady $18 a barrel, yet the supplies industry is still in survival mode.

A year ago, few believed that oil prices would have remained relatively high (at least when compared to the low of £9 reached last year) and relatively stable throughout 1987. Oil companies, which had previously shelved their plans for almost all new oil developments in the North Sea, have responded with enthusiasm to the unexpected stability of prices and are pushing ahead with plans to develop a number of large oil fields.

Shell Expro led the way earlier this year with the announcement of a £350m development plan for the Kittiwake field, and BP has subsequently said that it is pushing ahead with plans to develop its large Miller and Bruce fields, which together are likely to cost over £2bn. Meanwhile about five companies, including BP, Mobil and Marathon are jostling each other to build a gas pipeline in the Central North Sea, which would pave the way for the development of a whole generation of new gas condensate fields in the area.

However, because of the long lead time involved in most projects, the development plans now being discussed will not feed through into orders for two or three years at least. In the meantime, the suppliers have precious little on their books - work for Shell's Tern and Eider fields is nearing completion, while the handful of gas fields now in development stage are each about one tenth the size of a large oil platform, and alone are not enough to keep the industry busy.

The worst hit are the fabrication yards - all of which are operating with significant overcapacity, and are bidding for the small amount of work on offer at prices which frequently do not cover costs. Even though two yards went into receivership last year the future of some of the survivors is still in doubt.

The diving companies are also still screaming, with the volume of business down by half since its peak three years ago, and with all of the main North Sea companies making losses.

Faced with the prospect of continued hard times, many companies within the supplies industry have taken firm action to ensure their future. With the help of the Offshore Supplies Office, many of the UK engineering groups have merged or formed joint ventures, frequently with foreign groups, to pool skills and to help them bid for contracts on a "turnkey" basis, offering to provide everything from engineering to procurement, construction and installation in a single package.

A more immediate sign of the recovery of confidence in the industry is to be seen in exploration activity, which is already back to the same level as at the start of last year, before the effect of the oil price collapse had been translated into lower activity. According to Wood Mackenzie, by the next decade activity should have reached its peak levels of 1984, assuming a steady gradual increase in oil prices.

The increase in activity has not been enough to help the owners of rigs, which are still contending with a market in which overcapacity is running at about 40 per cent, and day rates still do not cover costs. Although day rates have risen from less than $14,000 during the blackest times last year to more than $17,000, the increase has been negligible when measured in sterling terms.

In the more distant future the outlook for the industry is brighter. According to a recent report from the Grampian Regional Council oil-related employment in the area by 1996 should have rise by 20 per cent to 48,000 - although it will still be about 4,000 less than the level two years ago. Much of this is a result of greater efficiency - after the ravages of the last two years, the industry is not prepared to increase its manpower unless strictly necessary, with the result that employment can be expected to rise more slowly than activity.

Lucy Kellaway

How foreign companies are encouraged to set up plants

One-stop shop for investors

SCOTLAND IS recognised as among the most aggressive and successful European generators of inward investment. Not all of it sticks: the recent Caterpillar closure was illustrative of a branch plant syndrome which has seen multinationals come and go over the years. But the largely positive results play a crucial role in the Scottish economy.

Inward investment is a crafty alliance between central government, the Scottish Development Agency (SDA) and local authorities. Its integrated organisation, the envy of English regions, has become the benchmark for continental competition.

This revolves around Locate in Scotland (LIS), a division of the SDA with its own director and an admixture of seconded staff from the Scottish Office's Industry Department. Technically, LIS can offer no better resources than any other UK agency. In practice it has proved to be that rare phenomenon, a genuine one-stop shop.

Its activities are concentrated on the US, where LIS runs four offices, Europe and Japan. These are co-ordinated from Glasgow by a "foreign bureau" operation rather like a news desk, which analyses trends and pursues industry sectors by database. The strength behind LIS is the SDA's considerable clout in tying together investment packages.

In the end, different Scottish locations compete between themselves for the business LIS attracts. This was best shown recently by the bidding for Kymmene Stromberg's proposed £215m pulp mill, the largest ever single investment by a foreign company in Scotland.

The Finnish concern, which will operate as Caledonian Paper, looked seriously at three sites: Fort William, close to the raw material; Linwood, the former car manufacturing plant; and Irvine New Town. Although the SDA actively promoted Linwood, as part of its own property portfolio, Kymmene picked Irvine for access to the Clyde and closeness to UK markets.

Inward investment results were rather less successful - 50 projects worth an estimated £427m and 5,084 jobs created or safeguarded - during 1986-87 than in 1985-86, when 56 projects brought in £562m and 8,217 jobs. Since LIS was established as an operational entity in 1981 it has attracted over £2bn of overseas capital, with 40,000 related jobs.

During the three-month period of August to October 1987 the SDA's inward investment announcements included Ford's £40m electronics plant at Dundee (450 jobs), Nikko Group's £3m polymer film processing machinery factory at East Kilbride (100 jobs over three years) and, also at East Kilbride, Avex, whose £8m electronics circuit board facility is expected to create 500 jobs within three years.

Though job-creation has national acceptance, specific proposals can be highly controversial. Currently, Health Care International is waiting to see whether the local authority will grant final-stage planning permission for site clearance work on its £111m private hospital complex at Clydebank.

Opposition to the hospital, which has now received approval from the Secretary of State, centred on its possible impact on the National Health Service. The SDA, embarrassed by delays in a project they say will create 4,000 permanent jobs, commissioned Coopers and Lybrand - which reported that the hospital would bring an extra £24m in annual disposable income to Scotland.

'We track companies. We negotiate the package. We practise aftercare'

Coopers concluded that the hospital's 80 doctors and 34 consultants could be recruited without denuding the NHS, and that most of the 590 nurses would be drawn from the unemployed or those who had left nursing.

To a results-oriented body like LIS, whose staff are set targets and incentives, democratic delays can seem highly frustrating, especially if they create doubt in a would-be investor's mind. "We've always got to remember the mission of Locate in Scotland," says Professor Neil Hood, its director. "We are a very commercial delivery mechanism. We track companies. We follow project development for two or three years. We negotiate the package. We practise aftercare."

Prof Hood, himself on a two-year secondment from Strathclyde University, believes that the success of LIS is 10 per cent marketing, 90 per cent police work. "The question for companies we pursue is not if, but when. We're a long-term player. We are patient but hungry."

He suggests that inward investment makes a contribution to Scottish life which goes well beyond jobs. This is particularly apparent in electronics, where the so-called Silicon Glen has given a new image and atmosphere to the central belt.

The Glen defies geography in extending from Irvine to Dundee via Edinburgh. It amounts to a growing community of US and Japanese corporations which choose to base their European operations in Scotland. Scotland sells hard on its excellent communications infrastructure, its choice of sites, its academic and research facilities, and its skilled workforce.

Silicon Glen began to take shape 30 years ago, long before the SDA or LIS were on the scene. There have been casualties here, too. Early this year Burroughs, or Unysis as it is now known, finally left its plant which was once the major private employer in Cumbernauld New Town. But partial regeneration, at least, is on hand with the arrival of Oki which this month will begin manufacturing desktop computer printers from the same factory.

Japanese investment in Scotland remains patchy, with 14 companies represented out of the 60 which manufacture in the UK. By comparison, most of the big US electronics firms are either already manufacturing in Silicon Glen or considering a move there. With IBM, Digital and Wang into their second or third development phase, fast-growing newcomers like Compaq have found enough comfort to place their first European plant at Erskine Bridge.

Whatever happens to the US economy in the coming months, it is likely that the pace of US inward investment will slow down. This may not matter significantly if companies already established in Scotland prove able to increase their market share in Europe: strong, non-inflationary growth could deflect any hint of recession from across the Atlantic.

Scottish electronics suppliers, too, have a built-in opportunity to improve components sales. Despite the SDA's commitment to Just in Time manufacturing, only around 12 per cent of the industry's inputs are sourced in Scotland. Each percentage addition to this figure could bring with it 500 jobs.

The arrival of companies like Techdyne, a Miami-based components manufacturer which last month signed contracts for a Livingston plant, helps to strengthen the local infrastructure.

Macro-economic switches make life difficult, even for bodies like the SDA. Britain's favoured position with both US and Japanese companies may not last for ever. Other European countries show an increasingly professional approach to inward investment.

Prof Hood points out that, for all their historical problems, overseas companies have a better track record in Scotland than indigenous companies. That simple fact is both an incentive to LIS and a challenge to Scottish industry.

Robert Waterhouse

Mr Jaakko Paloanen, managing director of the the £215m Caledonian Paper mill

Stirling

The rewards of populism

EARLY IN 1981 citizens of the Royal Burgh of Stirling learnt with dismay that their rates were set to rise by 120 per cent. Some 600 stormed the council chamber, to no avail. Stirling District Council's controlling Labour group was merely starting to fulfil its pre-election promises.

Nearly seven years later, the left-wing group is still firmly in control; the district is well-and-truly rate-capped; but through a mixture of judicious creative accounting and private sector involvement it is continuing to spend freely on ambitious projects.

Stirling's achievement has been to introduce a degree of local decision-making, while improving the district's economy. Under the Scottish system, industrial development is the regional council's responsibility, so Stirling district has concentrated on shopping, tourism and services.

The ground was fertile to start with. Stirling had excellent communications, a role as administrative headquarters of the Central Regional Council, a large town-centre shopping complex and a new university.

Mr Michael Connarty, the council leader and a teacher of handicapped children, had come to power on a ticket of social justice combined with selling Stirling to the outside world.

He recalls meeting Mr Malcolm Rifkind, then Scotland's local government minister, just before the 1980 district elections. "You've got a mandate to run the country," he told him. "We'll get a mandate to run Stirling, and we'll run it our way."

The 1970s had not been particularly kind to the town, Mr Connarty claims. "We decided that Stirling didn't need to be a passive recipient. We were not going to slide into a low-wage economy."

The Labour group's agent of change proved to be an ambitious young chief executive, Mr John Cairns, who during a brief tenure from 1983 to 1985 reorganised the authority's departmental structure and its accounting system. Stirling was suddenly pro-active.

Enthusiastic young officers were seen dashing around the district in nuclear-free zone vehicles. An advertising agency was retained to devise Stirling's colourful Futureworld logo, with Robert the Bruce emerging on horseback from a Castle module.

Futureworld is a catch-all slogan for Stirling District's tourism and leisure initiatives. Apart from the castle, which had been losing custom in recent years, Stirling offers several attractive venues including Bannockburn, the Wallace Memorial and Doune Castle.

Further afield, Callander is Dr Finlay country where you can find Tannochbrae Chalet Park and Arden House Hotel. Loch Lomond and Loch Catrine are both within the district's wide boundaries, which embrace the accessible Highlands. District councillors have made a point of cultivating places like Callander, not the most obvious territory for Labour radicals.

Paradoxically, the area of ancient tenements up near Stirling Castle, called Top of the Town, is one of the poorest parts of Central Scotland. Unemployment in this largely council-owned quarter is officially 30 per cent but thought to be much higher. Stirling has won £200,000 urban-aid backing from the Scottish Office to create jobs with tourism-oriented projects.

Down below, the district council acquired Annfield, the home of Stirling Albion, installed a synthetic surface claimed to be of national standard and then made it available to local teams at £22.50 a match as part of an £800,000 conversion of the ground into a multi-use sport centre.

It is this sort of populist action which has characterised the Connarty regime. Other initiatives include taking a majority shareholding in a double glazing company, principally to improve council house insulation but with the intention of supplying local authorities elsewhere and even the private sector. There is also a pilot scheme to provide information technology training for the house-bound disabled, backed by ERDF funds, and moves to create jobs in the villages around Polmaise Colliery, which closed recently in an area of already high unemployment.

Out at the university the council has put £2m into building luxury hotel standard accommodation for the Stirling Business Centre.

So has new-look Stirling's approach been mainly window-dressing, or does it go deeper than that? Mr Terence Lawson, the chief executive of Central Scotland Chamber of Commerce, finds that the council has "the gift of perceiving what the public wants, then delivering it." He believes the consultation process is genuine, and says that councillors give business interests the right emphasis in the community.

Mr James Fraser, director of the Loch Lomond, Stirling and Trossachs' Tourist Board, recognises solid investments rather than hype. He points to the council's £800,000 commitment in a Callander visitor centre, £100,000 in three new tourist information centres, and £200,000 in an exhibit at next year's Glasgow Garden Festival which will be brought back to Stirling.

Beyond smaller but equally crucial support for events during the season, floral displays and special street cleaning squads, Mr Fraser commends two council-backed projects in the historic core. The first is a proposed luxury hotel, the second nothing less than the Scottish National Tartan Museum.

Mr Tom Martin, manager of the Thistle Centre, Stirling's major shopping mall (a legacy of the 1970s) is equally positive about the council's support. All his major tenants - the big high street names - have made recent further investment. The long-discussed Phase Two, mainly food and "comparison" shopping, now looks likely, spurred on by the threat of out-of-town competition.

Rate-capping meant the removal this financial year of £933,493 in rate support grant, equivalent to a 2p rate increase, and left Stirling District Council without any central government support for its services. The fact that this has not brought the council to its knees reflects both the relative affluence of the local community and its acceptance of Labour policies.

Mr Connarty has twice contested the Stirling parliamentary seat, and came within 500 votes of Mr Michael Forsyth in June. Now that the new policies are firmly in place, that might have made a convenient exit point from the local scene. However, as Mr Connarty puts it with the faintest hint of wistfulness, who wants simply to be Scotland's 51st Labour MP?

Robert Waterhouse

Farmers face fresh price pressures, says **Robert Waterhouse**

Cuts may wipe out profits

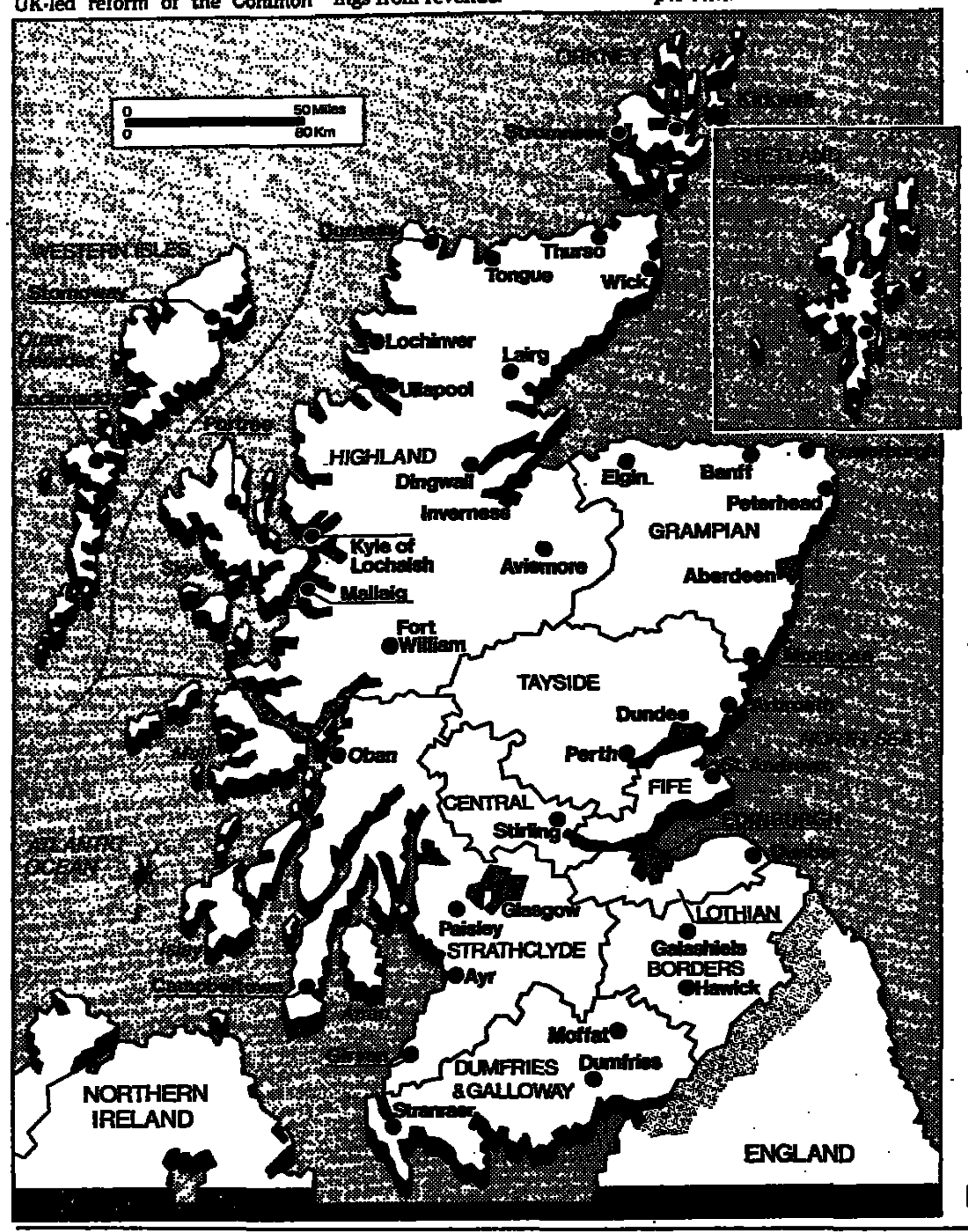
FARMERS ARE often accused of needlessly crying wolf. This time, the National Farmers' Union for Scotland says, the wolf is well and truly at the door.

Scotland's farmers face pressures similar to others around Europe as the Community attempts to balance its books and cut wasteful subsidies. However, the mostly marginal nature of agricultural land - 90 per cent is officially a Less Favoured Area - means that profits, never all that good, can slide into heavy losses at a time of retrenchment.

The disastrous summer of 1985, followed by two mediocre ones, has left Scottish farmers poorly-placed to cope with production cutbacks sought in the UK-led reform of the Common Agricultural Policy intervention system.

According to a leading agricultural consultant, Mr John Sharp of Ernst & Whinney's Glasgow office, farmers have seen up to 50 per cent wiped off the book value of their holdings by falling land prices. Some, he says, are unable to service bank borrowings from revenue.

The wolf has not arrived overnight. NFUS statistics show that Scottish net farm income fluctuated markedly over the past decade. In 1980 it dropped to just 12 per cent in real terms of income for 1977, a bumper year. It recovered to 56 per cent in 1984 but fell to 10 per cent in 1985. Last year's figure was 25 per cent.



But bank borrowings reached record heights in 1986 at just under £1bn. The total interest paid by farmers, excluding advances on land purchases, was an estimated £103m, or £12m more than the year's net farm income.

Now, Scottish farmers, after years of production growth encouraged by government policies and enshrined in EC philosophies, are being told to cut back or face "stabilisation" penalties.

Mr Scott Johnston, the NFUS's director, says his members accept the need to bring supply and demand into balance. "But we're also quite clear that if price pressure alone is used to achieve this there will be substantial consequences for the Scottish agricultural scene."

For example, Mr Johnston suggests that, in a period of prolonged price pressure on cereals, farmers in the Paris basin will be in business long after parallel farmers in North-East Scotland.

Scottish farmers, whose land is on average half as productive as that in England, realise that stabilisation agreements fought out in Brussels and Copenhagen are bound to mean changed uses for the countryside. They expect "set-aside" (leaving parts of farms fallow), increased emphasis on tourism, and a switch to forestry under the revised Farm Woodland Scheme confirmed recently in Parliament.

Tree-planting grants, targeted mainly at arable land and improved grassland, will be available for a maximum 12,000 hectares a year, or roughly half the annual traditional forestry planting rate for the UK. The NFUS welcomes the scheme, with its recognition of Scotland's less advantaged areas.

It also welcomes the recent announcement of a five-year £40m agricultural development programme for the Scottish islands. This European Community measure, aimed at counterbalancing the extra cost of farming in remote areas, has received enthusiastic backing from the Scottish Office.

The NFUS is now lobbying Brussels for the scheme to be extended to the Scottish mainland. It sees the programme for the islands as a first-stage recognition of Scotland's special case.

Mr Johnston claims that Scottish farmers are realists. They can and will change their ways, but they need to count on support from central government to survive.

"We're looking for a strategy to see the Scottish farming industry through a period of profound change," he says. "Nobody wants a derelict countryside."

That theme was put in stronger terms by Mr Ian Grant, the NFUS president, addressing his council on November 4. Mr Grant said:

"British ministers have been quick to support the idea of more price-cutting inherent in the stabiliser principle... and, rightly or wrongly, they have left the Scottish farming industry with the conviction that they are unable or unwilling to use the CAP in a way which will defend and promote the interests of Scotland's rural communities."

Lord Sanderson of Bowden, the Scottish Agriculture Minister, replies to such broadsides with a measure of detachment. "Agriculture remains the backbone of most of our rural communities," he says. "I recognise, therefore, that there is some apprehension in these communities over what the eventual effects of CAP reform may be.

"But it is important to realise that, at present, far too much of what is spent under the CAP really does nothing for our farmers. Over a third of all CAP expenditure goes to the disposal of surplus commodities. That is a ridiculous waste of taxpayers' money - and farmers are taxpayers too."

As reassurance to Scottish farmers, Lord Sanderson states that the level of government support to Less Favoured Areas, currently £43m, will continue. While reserving his position on a possible mainland agricultural development programme, the minister agrees that parts of the Scottish mainland face the same structural problems as the islands.

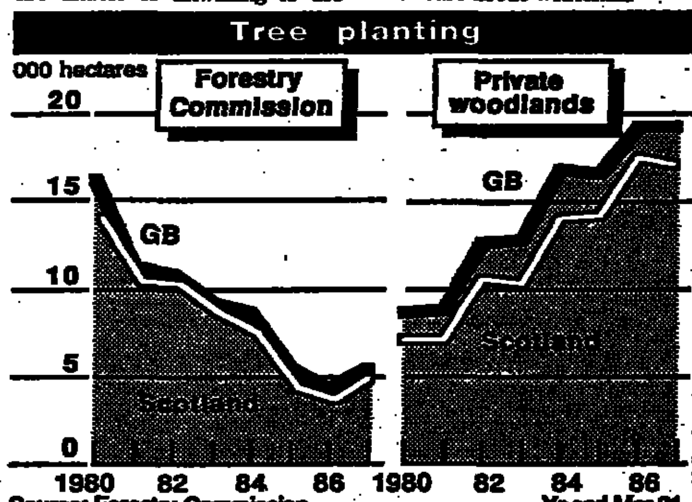
Together with horticulture, farming represents one of Scotland's biggest employment sectors. Some 60,000 people work on the land; a further 45,000 work in related industries such as slaughtering, brewing and distilling, and preparation of milk products.

So it is very much in the interests of the Scottish economy that the current transition phase succeeds. The NFUS's Mr Johnston remains optimistic. "We're not saying that all is lost, rather that we mustn't rely on price squeezes alone. I believe the European Commission and the Scottish Office understand. I'm not so sure about Whitehall."

Forestry

Revival led by private sector

Tree planting



Source: Forestry Commission

FORESTRY PRODUCTS are one Scottish industry for which demand is insatiable. Last year home supplies met just 8 per cent of UK consumption in wood, paper, pulp and panelling. That percentage could double over the next 25 years, and much of the supply will come from Scottish plantations.

The revival of commercial forestry has coincided with the Thatcher Government's preference for private sector involvement. After dominating six decades, the Forestry Commission has slipped to a position where, in the year ending April 1987, it planted less than one third of new woodland in Scotland.

And Scotland, accounting for 22,400 hectares out of the UK total of 24,700 hectares, is the centre of commercial interest. This has led to major, and continuing, debates about the environmental impact of yet more trees.

Under the existing system, the Forestry Commission is in effect the planning authority whose permission to plant new ground precedes tax incentives for the private sector.

The Edinburgh-based Commission, Britain's biggest land manager, has a statutory duty to promote landscape values, protect wildlife and encourage access to forests. It sees itself as a progressive body, working constructively with the large companies which operate individual private investments. "Our main concern is the way expansion takes place," says Mr Gwyn Francis, the Commission's director-general. He believes that critics tend to judge the industry by the standards of the 1950s because of the 30-year span between planting and maturity. In fact, the Commission has employed landscape consultants since the mid-1960s. Today's design guidelines respect natural features and include "reclamation" of mature forests during felling and restocking.

However, better landscaping is not an issue with those who object to widespread planting of irreversible environments like the Flow Country of Caithness and Sutherland.

Scotland's ability to meet industry demands for wood products without further inroads into "wilderness" areas will be boosted if farmers, as seems likely, respond to increased incentives to plant trees on arable land or grassland. In the processing industry, new investment at Highland Forest Products' plant near Inverness and Caberboard's Cowie facility indicate sector growth. But the biggest single mark of renewed confidence was Kymmene-Stromberg's decision to build a £215m pulp and paper mill at Irvine.

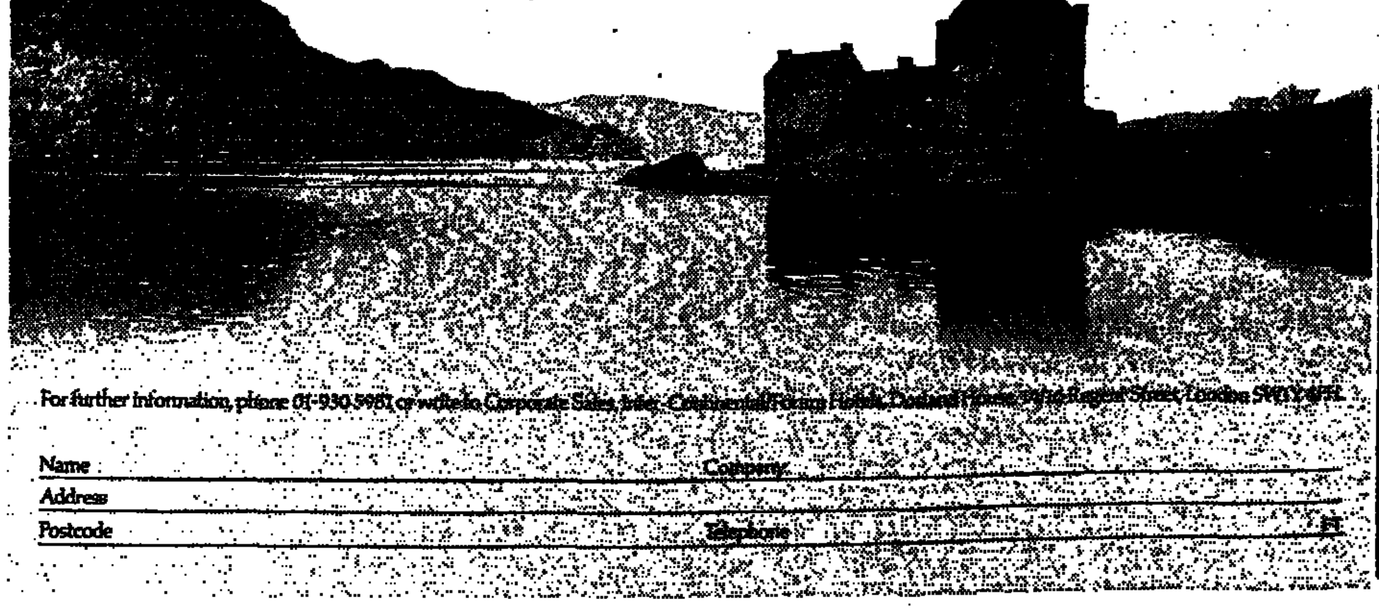
The Forestry Commission has signed a 10-year contract worth £25m to supply 100,000 tonnes a year of Sitka spruce to the mill when it comes on line in 1989. The spruce will be mainly from post-war plantations in Argyll and the Western Highlands. A further 100,000 tonnes will be bought from other sources.

About 900 permanent jobs come with the investment. However, sector employment will continue for the time being to be dominated by England. Last year, out of a total UK workforce of 39,450, some 6,000 people were employed in Wales, 11,200 in Scotland and 22,250 in England.

As the private sector's involvement in new forestry grows, the Commission is under Government orders to dispose of its assets. So far about £90m worth of plantations, land and buildings have been sold off. The money goes direct into Treasury coffers. This has led, inevitably, to speculation about full-scale privatisation, on which the Forestry Commission's director-general declines to be drawn.

But there is no doubting the marketability of the Commission's assets. Its regulatory role will be harder to define when forestry enterprise ceases to be a state concern.

Robert Waterhouse



A few inches.
But a big difference.

"A short head."

As any gambler will tell you, these three little words can be the difference between champagne and tears.

Of course, with today's thoroughbred airlines, tears are out of the question.

However you fly to Scandinavia, you won't exactly be a loser.

But it's still worth studying the form.

At SAS, we've been praised to the skies for our outstanding service to business travellers. (And not just the skies – our on-the-ground service is much admired too).

For the normal economy fare, you can fly EuroClass or First Business Class – with no surcharges.

And you can do it in style. Sit down and see what a generous welcome we give to your knees and legs. Like gamblers, airline passengers know only too well the difference a few inches can make.

We can't claim to be the world's favourite airline.

But we can say that most business travellers to and from Scandinavia put their ticket money on us.

In that sense, at least, you're backing the favourite.

And enjoying a level of service and comfort that's in front by a short head.

Or should we say a long leg?

SAS
The Businessman's Airline

Nick Garnett examines the outlook for British Steel as it prepares for the coming privatisation

A slimmer and fitter giant ready to go to market

"IN SHAPE for Things to Come" has been the catchphrase in British Steel's television advertisements this week as the business continues its charge towards privatisation.

Yesterday the slogan seemed a fitting one as Sir Bob Scholey announced a half-year bottom-line profit of £190m over a breakfast of kedgeree at the corporation's London head office.

The corporation is in the middle of its third year in the black and is probably heading towards a full-year profit of about £350m. The half-year figure confirmed the corporation's remarkable industrial metamorphosis.

The West German steel industry is wrestling with a huge overcapacity; Italian and French companies are struggling with rationalisation programmes. The really bad years for British Steel are beginning to drift into history. Losses of £30 a second in 1980 and the accumulated loss of £7bn in seven of the 10 years before it emerged into profit in 1985 are almost in the archives.

Sir Bob and his management team were relishing the results yesterday, and rightly so. However, the corporation's management is aware that the newly privatised business will face some very difficult problems in coming years, apart from dealing with the mechanics of privatisation.

Some of these problems relate to the uncertain trading environment which, Sir Bob said in an interview with the Financial Times last week, will become more "hostile".

The future dismantling of the European quota system might drive down prices. World steel demand at 770m tonnes is shrinking and there is a theoretical world overcapacity of 200m tonnes while countries such as South Korea rapidly expand their steel industries. Currency movements, which have been a big boon for the corporation in the past two years, will not always be in its favour.

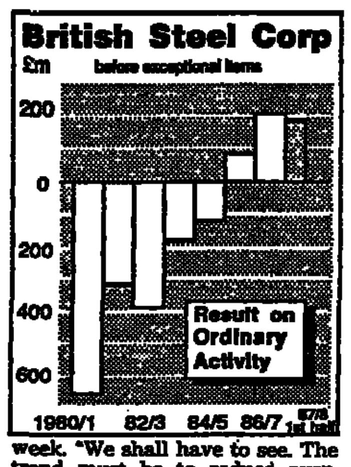
Other problems concern structural inadequacies within British Steel, including its weak position in stockholding within the UK and that some of its production kit is still not as good as the best in Europe.

The corporation's configuration of five integrated coastal plants, at Port Talbot and Llanwern in Wales, Teesside and Scunthorpe in England, and Ravenscraig in Scotland, is a problem for the long term.

Most observers believe that a company producing about 14m tonnes of liquid steel a year needs no more than three plants, and possibly two. Many British Steel managers agree. Thyssen in Germany produces from one site the same output as British Steel.

That could mean that after privatisation, and perhaps in the mid 1990s, not only will Ravenscraig be closed but so will at least one other big production site.

"Maybe that's the way it goes," Sir Bob said in an interview last week. "We shall have to see. The trend must be to reduce overheads. That means to review the role of the sites."



At present Ravenscraig's steel making facility - which accounts for 10 per cent of the corporation's capacity in efficient so-called continuous casting - is needed by British Steel. The hot roll mill at Ravenscraig, which adds about £15m to the corporation's operating costs, is not.

The turnround at British Steel is certainly outstanding. Productivity is up dramatically as a result of capital investment, demanning, better housekeeping and improved labour practices.

The corporation was operating on about 16 man hours to make one tonne of steel in the late 1970s. That was down to 6.5 man hours last year and in recent months has been 5.5. Its proportion of steel made by the continuous casting method has risen in the same period from about 30 per cent to 65 per cent and when Llanwern's new facility comes on stream next year it will be up at 78 per cent.


Sir Bob Scholey: relishing British Steel's results

British Steel has 62 per cent of the home market as against 48 per cent immediately after the highly damaging nine-week strike in 1980 and its exports were 37 per cent of volume sales in the first half (42 per cent at the moment), the highest in its history.

The corporation is making almost as much steel as before its engineering steels businesses were spun off into so-called Phoenix public-private sector companies, such as United Engineering Steels.

Labour practices have been radically altered together with the introduction of bonus payments based on plant performance. These bonsues have ranged recently from 4 per cent to 18 per cent of earnings with average pay for a steelworker now about £230 a week.

A lot of pain has accompanied all this. About 100 pieces of production plant have been shut. Sites such as Consett inDurham have been closed, and Corby in Northants partially closed as the workforce has been slashed to 51,200. In the past seven years 80,000 steelworkers have lost their jobs and a further 30,000 have been switched to private sector companies.

Sir Bob believes that advances in performance mean that the corporation is commercially ready to be privatised, that it should be floated intact in a public share issue, that it should receive no government cash support and that the Government should not have any "golden" stake.

Its continuous casting share is still behind the European average of 85 per cent. It requires between £200m and £300m a year profits to keep on top of re-equipment and other needs. It is short of quota in Europe to the tune of about 360,000 tonnes a year and the cost of buying quota ranges from £15 to £40 a tonne with steel selling on average at £250 to £300 a tonne.

The Government has constrained its stockholding activities in the UK and the privatised company will want to increase its existing 15 per cent share. British Steel has only a rather feeble 2 per cent of the European steel market

Then there is the increasingly fraught market. "Steel is going to be under pressure," says Sir Bob. "If life is going to get tougher the freedom to deal with problems that arise is invaluable." That includes, he adds, steering investment to areas decided on by British Steel, not ministers or MPs. If you get into rough water, Sir Bob said last week, the kind of things you need to do to stay afloat "are not always politicaly acceptable".

That brings us back to three long-term strategies that the newly privatised company might have to look at. One is to move towards the importing of more semi-finished steel as a means of topping up plants, a method some British Steel managers favour. Another is the close examination of its plant configuration, perhaps in the next decade, with strip products concentrated at one or more plants in Wales, and plate and sections at one or both the plants in England.

The third will result from the undoubted pressure on British Steel from shareholders to diversify into other activities if cyclical steel demand puts the squeeze on future profits.

Scholarship and reorganisation of the profession

By A. H. Hermann, Legal Correspondent

IN THE Great Souk of Marakesh - or any other African market - a holidaying English solicitor can watch the beginnings of his profession: squatting on a small carpet in the open, his evolutionary ancestor writes letters and applications - and envelopes - for his illiterate clients who, like clients all over the world, wait patiently for the miracle.

Alas, however nostalgically he may observe this idyllic scene, the contemporary solicitor cannot suppress the deeply disquieting thought that his own clients, or at least most of them, are no longer illiterate and have quite staggering demands on his knowledge and organisational ability. The warnings and exhortations of reformers could be ignored as long as professional barriers and monopolies protected him. These are now crumbling under the impact of market forces. The great souk of London, in particular, is proving to be a stern teacher.

"Never before has law played so important a part in our lives ... and the more law pervades our day to day existence, the more complex it becomes and the less chance we have of knowing and understanding it. Lawyers complain that they cannot keep up with the avalanche." This is how Marcel Berlins begins his introduction to Law and You, the just published update of the 1986 You and the Law, produced under his editorship by the Consumers Association. For a mere £14.95 the compendium contains answers of remarkable clarity and completeness to some 1,300 questions about law, applying to family, property, employment and small businesses - and you do not have to be a lawyer to understand them.

It is no longer possible to ignore the competition of such plain-language presentations of law, which - with Citizens Advice Bureaus and other popular institutions which provide legal advice in all but name - could substantially reduce the cost of legal aid to the Government. Many solicitors now respond to this competition by offering free initial interviews and, in rural areas, by preparing to provide "motorised law offices" and home calls by solicitors, particularly where clients find it difficult to travel. Another move in the same direction is - or rather will be - arrangements made by employers for free legal advice for their employees. This would be an additional perk which, like the resident doctor and nurse, could reduce both time off and worry.

These developments are a response to the fast expansion of a clientel which is unable or unwilling to support a slow and expensive, elitist legal service. At the other end of the battle front, the profession can be seen reacting to the need to keep up with the avalanche and to interpret much more complex law. One of the possible solutions leads from a narrow-minded attention to "black letter law" to something which could be called "legal fundamentalism", where familiarity with the basic principles of the system enables a faster orientation and understanding of the ever changing legislation and judge-made law. The other path is specialisation. Solicitors are now experimenting with both.

Until recently the legal profession - solicitors, barristers and judges - looked down on the academic lawyer. They felt no need for a rational structure and arrangement of English law. Indeed, sone said the more confusing and uncertain it was, the better for the profession. The "learned journals" used to ignore completely legislative proposals, and only reported judgments with reverence and without any critique. When, in 1950, the Modern Law Review published Professor L.C.B. Gower's complaint that law teachers criticised judicial decisions so humbly that it was no criticism at all, and that their inferiority complex was bad for the whole legal profession, the editor was summoned by the Law Lords and solemly reproved.

In the fiftieth anniversary issue of the review, Professor Cyril Glasser surveys* the arduous way, started in the 1930s, towards a more creative legal scholarship. The profession is now on the brink of recognising that it will no longer be able to do without it.

The UK is still unique is excluding academic lawyers from judicial appointments and, indeed, most senior judges still refuse to admit that they could gain anything from studying law as a social science. However, a more enlightened view is gaining ground. Even living authors are nowadays quoted in courts as "persuasive authority" - a privilege which but a few years ago was reserved to those securely dead.

Both the Law Society and the Bar now encourage entry of candidates with a law degree - entry without it is quite unthinkable outside the UK - and in his recent lecture at the University of Nottingham, Sir Gordon Borrie, himself an academic turned public servant, predicted "a breaking down of the barriers between teachers and practising lawyers, with individual lawyers more frequently than at present engaging in both activities or moving more easily from one to another". It is not without significance that he was opening a seminar arranged by Macfarlanes, one of the leading City firms of solicitors.

Even more significant, perhaps, is that Masons, a Fleet Street-based international law firm, hails as "the legal recruitment coup of 1987" that they have been joined by an Oxford don: Phillip Capper, chairman of the law faculty and widely known as lecturer, writer and editor in several departments of business law.

So much for the discreet, but unavoidable, intellectualisation of the profession; but its restructuring is causing much more fuss. The first visible stage, the growth of City law firms and their mergers, may well come to a halt in so far as it was a corollary of the internationalisation of the City, and of the influx of foreign clients accustomed to the sort of comprehensive service offered by US law firms.

The expertise of the large City firms, the fact that they are mostly engaged in uncontentious business and that most of their High Court litigation is in chambers, where they do not need a barrister, reduce their interest in the fusion of the profession and the rights of appearance in higher courts for solicitors. Their partnerships are sufficiently attractive to tempt young talent to leave the Bar, and the libraries and information retrieval systems which these firms can afford take care of the rest. "Beauty parades" - tenders for services arranged by large prospective clients - are bound to keep them on their toes and, in the near future, will probably squeeze some of them out of some business.

Is bigness - by merger or internal growth - the right solution for the suburban or provincial solicitor? The time is certainly up for the one-person general practice, and even two or three-member partnerships are vulnerable. The strain which the complexity of law and clients' demands puts on these small firms is reflected in their high proportion of negligence claims and the frequency with which the Law Society has to step in to compensate clients for fraud or malpractice. However, there is room for one-person offices, or small partnerships, narrowly specialised in a certain line, criminal defence, personal injuries, tax or employment law, for example. The existence of such specialised solicitors will be yet another argument for giving clients complete freedom of choice as to who should represent them in court. As the frequent appearances of barristers in tribunals and enquiries of all sorts demonstrate, the exclusive rights of audience in higher courts are not indispensable for a continued existence of the Bar.

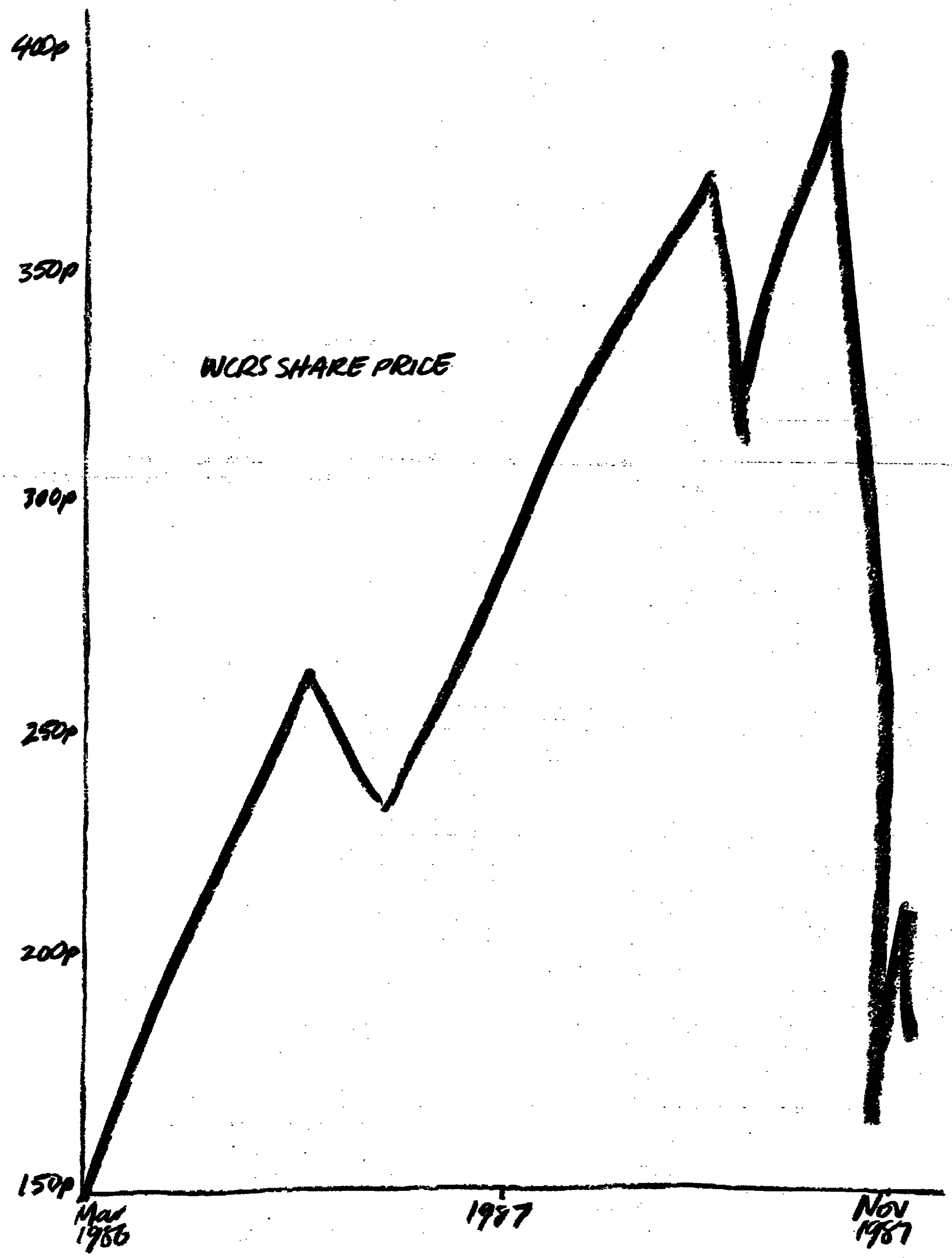

Phillip Capper: a don flows in

This leaves open the question of the small general practice with several partners, still relying mainly on conveyancing, probate, divorce and company work. They could find a new *raison d'etre* if they became business solicitors, helping small and medium-sized businesses to cope with the complexities of finance, contracts, product liability, industrial relations and intellectual property. The latest series of the Law Society's See a Solicitor leaflets (which it now supplies to members with their firm's name on the front page) will hardly help. It is still focused on the traditional legal business.

Some suburban and provincial solicitors will turn to the more demanding new tasks unaided. Others, however, will be able to become business solicitors only by joining hands with accountants, estate agents, insurance brokers and surveyors. The Law Society still hesitates, claiming that in any such association the solicitor must be the boss, as if solicitors had a monopoly on probity. The legislative and professional barriers to such combined partnerships should be removed, said Sir Gordon in his Nottingham lecture. His concern is competition and consumers choice. The Law Society ought to be concerned about the future of their members. If it hesitates too long, there will be few left to join the combined partnerships.

* *Cyril Glasser: Radicals and Refugees, M.L. Rev. Vol 50, pg 688 (Oct 1987).*

A PICTURE OF THE MOST SUCCESSFUL COMPANY IN THE HISTORY OF ADVERTISING.



October 19th: ouch. (Or "sacrebleu" as our new French partner Belier – see below – would say.)

Could a company be halved in value simply because President Reagan can't do arithmetic?

A company which, only two weeks before had been hailed by one of the leading stockbrokers "our favourite agency stock of the moment".

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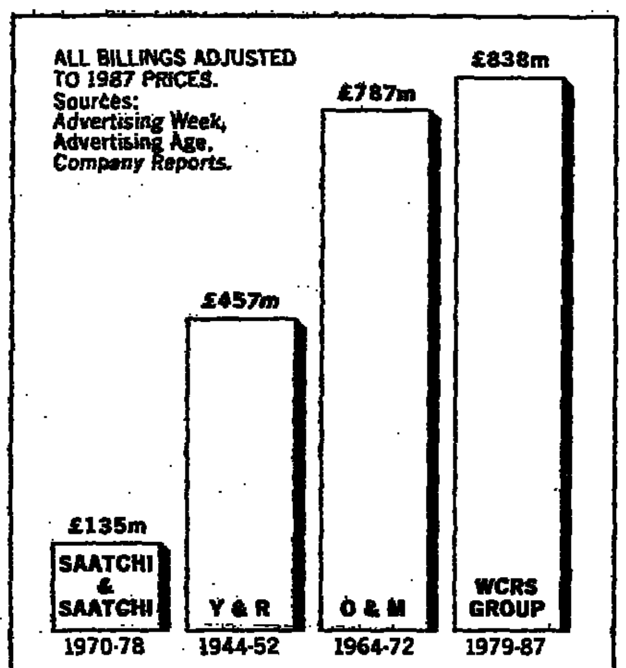
In just 18 months, our shareholders have helped us fund our growth from a company employing 265 people in two UK profit centres to a company employing 3,000 people in over 30 world wide profit centres.

It has taken us from an advertising group billing £60 million to a £838 million communication group.

A figure that is all the more surprising if you consider that nine years ago WCRS didn't even exist.

It is interesting for us, at least, to compare the first eight years of our growth with that of some other leading advertising agencies.



The First Eight Years:
Other Agencies Can't Keep Up.

As you can see, even taking inflation into account, none of them can match it. (In case you're thinking of a certain shopping trolley company now filling its baskets with other advertising agencies, that actually started 19 years ago.)

Hence, the bold – and proud – statement that heads this advertisement.

Britain's 18th Fastest Growing Company.

In return for their support, the WCRS Group has given more than a fair return to its shareholders. A recent Financial Times survey placed us 18th in overall profit growth amongst Britain's 500 largest companies.

The facts behind our performance bode well for the future.

The reputation and size of our American agencies goes from strength to strength. Recent account gains include American Brands, Texas Commerce Bank, Dr. Scholl and Reebok's fashion business.

Since we merged the New York office of HBM Creamer into Della Femina Travisano it has won $55 million.

(A refreshing change from those other mergers where billings went down, not up.)

Our PR businesses in Britain and America have grown by 20% in the last year.

The founding UK agency, WCRS Mathews Marcantonio, has recently won more business than in any other twelve month period in the history of the London agency.

In the Pacific, the Ball Partnership has grown by over 40%. In Australia, alone, it has moved from the Top 30 to the Top 15 agency. And it came joint first in the prestigious Caxton Advertising Awards.

But, arguably, more significant than any of these developments has been the arrival of the French Belier Group as our European partner.

As the largest French agency group, and the sixth largest in Europe, Belier virtually completes our global jigsaw.

(And without any extra demand being placed on our shareholders for funds.)

Now, and for the first time, we have a credible network to sell to multi-national advertisers.

It Is Time To Start Selling The Company.

Until now, all our new business activity was inevitably focused on national opportunities.

Now we can start to focus on those multinationals who are finding that the existing networks are not serving them well enough.

In many countries, the conventional multi-national agencies have been losing market share (20 share points alone, for example, in Britain in the last decade).

A new generation of national agencies has grown up to attract the talents that used to work happily for Madison Avenue. Levis, Marlboro, and Unilever are just three who have abandoned multinational for nationals in Britain in recent years (for all or part of their business).

Until now, none of the new local agencies have been able to offer a full multi-national service.

Yes, there have been "letterhead partnerships" where independent companies agree to co-operate.

But unless the financial blood is mingled, no real bond exists that a client can rely on.

The WCRS Group is the first attempt to offer an alternative to the colonial networks of the past.

"The Entrepreneurial Federation": An Ugly Phrase With A Beautiful Meaning.

The WCRS Group has one major disadvantage to multi-nationals: it is an unproven new idea.

Thus we don't expect that companies like Unilever or P&G, Beechams and General Foods will give us all their business tomorrow.

But BMW, Sheraton and Laura Ashley have all given us their business in at least three continents. And our network has only been in place for six months.

And the reasons why more will be tempted to follow is clear when you see what we have to offer.

First, we offer first generation talent.

The names on the letterhead are still alive, and not distant echoes of past glories.

	AGENCY/GROUP	$bn
1.	SAATCHI & SAATCHI	8.26
2.	OMNICOM	5.82
3.	INTERPUBLIC	5.55
4.	DENTSU	5.31
5.	JWT	4.30
6.	Y & R	4.19
7.	OGILVY & MATHER	3.80
8.	HAKUHODO	2.27
9.	DMB&B	2.26
10.	FCB	2.15
11.	GREY LEO BURNETT	2.06
13.	WCRS GROUP	1.50

SOURCE: DERIVED FROM ADVERTISING AGE, 11th MAY, 1987.

The W, R And S Still Work For The Agency: None Of These Multi-Nationals Can Promise As Much.

As you can see from this league table of the world's largest 13 agency groups only Saatchi and Ogilvy offer a client a chance to work with the names on the notepaper. (Though, if reports are true, such meetings are somewhat rare.)

If you look at the individual operating companies, you will find the energy and commitment of a founding entrepreneur waiting to work with you.

Not the local flunky waiting to receive his instructions by telex from Head Office.

Second, at the top of these companies you will find craft skills, not just financial acumen.

Our Chairman is a Copywriter (as you may have guessed, he wrote this advertisement). So is one of the Deputy-Chairmen of our London Agency.

The President of our Boston office is an Art Director. The Chairman of our New York agency is a Copywriter.

And so on, through the 30 companies in our group.

Which makes a change from the offices of multi-national agencies where their leaders seem interested more in the bottom line than the headline. And believe advertising is something they did before they grew up.

Finally, no conventional multi-national has such a level of management thinking skills available to its clients.

In WCRS, we have an extraordinary reservoir of (largely) ex McKinsey consultants in both our Group Centre and our operating companies.

That level of trained analytical power focused on the client's business is something we believe that no multi-national agency can offer.

Man Cannot Live By Ad. Alone.

The WCRS Group is multi-disciplinary as well as multi-national.

We're the world's fourteenth largest PR company (including Creamer Dickson Basford in America and Biss Lancaster in Britain). We're the world's twelfth largest design group.

We're in sponsorship, we're in direct marketing, we're even in management consultancy.

In fact, more than half the acquisitions we've made in the last eighteen months, have been non-advertising companies.

None of them carry the WCRS name. Each is designed to be a successful specialist business, not the second rate department of an advertising empire.

Within the next few years, we expect 50% of our earnings to come from our non-advertising companies, compared to 20% at present.

And we plan to group these specialist companies hubbed round key regional centres (like London, Paris, New York, Boston, Los Angeles, Sydney and Hong Kong).

And so provide an intelligent alternative to the conventional thinking that constricts multi-national dinosaurs.

Down But Not Out.

Having read this far, you may share our surprise that President Reagan's arithmetical ability should have had such an effect on us.

It's true that 50% of our earnings come out of America. But that's where half of <u>all</u> the world's advertising expenditure occurs.

In the long run, of course, it's how we serve our clients that will decide how much our company is worth.

Pushing up their market share is the best way to push up our own.

Which is why, paradoxically, we relish the challenge set us on October 19th by the collapse of the share prices.

It will be nice to be able to prove that we, at least, are not a company that is built of paper.

THE WCRS GROUP PLC

ADVERTISING, PUBLIC RELATIONS, DESIGN, DIRECT MARKETING, SPONSORSHIP & STRATEGIC CONSULTING. OFFICES IN: AMSTERDAM, ATLANTA, AUCKLAND, BANGKOK, BOSTON, BRUSSELS, CHICAGO, HOBART, HONG KONG, KUALA LUMPUR, LONDON, LOS ANGELES, MELBOURNE, MILAN, NEW YORK, PADUA, PARIS, PITTSBURGH, ROME, SINGAPORE, SYDNEY. GROUP HEADQUARTERS: 172 DRURY LANE, LONDON WC2B 5QR. TEL: 01-242 2800. FAX: 01-831 3080.

Arts Week

F	S	Su	M	Tu	W	Th
4	5	6	7	8	9	10

Exhibitions

LONDON

Tate Gallery. Turner in the new Clore Gallery: the Turner Bequest, which amounts to nearly 300 oil paintings, finished and unfinished, and a further 19,000 or so watercolours and drawings, has been a source of controversy and dissent ever since it came into the nation's hands more than 130 years ago. Turner always wished for a gallery to himself which would show all aspects of his work. Whether he would have approved of James Stirling's extension to the Tate as a suitable setting is a nice question. The vulgar neo-deco of the entrance hall has little to recommend it, but eight rooms for paintings and one for watercolours give room enough, and with the three reserve galleries upstairs, every painting but the few in restoration or on loan is on the wall.

PARIS

Petit Palais, Ave Winston Churchill; **Musee d'Art Moderne de la Ville de Paris,** Ave President Wilson. Five Centuries of Spanish Art. An ambitious ensemble of four exhibitions retraces the history of Spanish art from the Golden Age to today. The two most important exhibitions are El Greco To Picasso at the Petit Palais and Picasso's Century at the Musee d'Art Moderne. In the Petit Palais is El Greco with a vast visionary Baptism of Christ, Velazquez with a portrait of Philippe IV in his hunting clothes, and Goya with a portrait of Marie-Louise in a black-lace mantilla. Picasso's Century is dominated by the master, from the period of analytic cubism through 20 preparatory sketches for Guernica to his last works. But there is also Juan Gris, and Miro, Dali and Tapies. Both exhibitions are closed on Mondays and both end on Jan 3.

Grand Palais. The Grand Palais is staging the first retrospective of Fragonard in collaboration with the Metropolitan Museum, New York. About 100 paintings and as many drawings celebrate the artist's love of beauty in which he saw a manifestation of "nature's perfect health". Ends Jan 4.

Musee des Arts Decoratifs. A King's Table: some 400 pieces of 18th century silversmiths' work from the court of Denmark conjure up the glitter and magnificence of the Service a la Francaise. For the kings of Denmark, as for the rest of Europe, Versailles represented the ideal court setting and they ordered tureen and service dishes, cutlery and candlesticks from the greatest of Parisian silversmiths. The ensemble is made even more precious by the disappearance of the French Royal collections, melted down repeatedly to pay for ruinous wars and at the approach of the Revolution. 107 Rue de Rivoli (42603214). Closed Mon and Tue. Ends Jan 3.

Picasso's Drawings. Coinciding with the publication of a catalogue of Picasso's drawings belonging to the Paris Museum, an exhibition of 136 drawings retraces the panorama of the artist's creation. There is his early work of academic perfection confronted with daring shortcuts preparing for cubism. The period of Les Demoiselles D'Avignon is evoked by a drawing representing friendship, while portraits of Dora Maar and Jacqueline in the atélier return to a more classical conception. The violence of the minotaur and of the crucifixion images is followed by variations on Femmes d'Alder. Finally there is his uncompromising, moving reaction to the approach of old age and death. Musee Picasso (427 12521). Closed Tue. Ends Jan 4.

Maitres Impressionistes et Modernes. From Pissarro's Road to Louveciennes with vast trees throwing shadows across the road to Fautrier's blue paint thickly laid on in an abstract composition, from Monet's orgy of pinks, mauves and greens in a House among roses reminiscent of his Nympheas to the geometrically-shattered pale yellow and off-white suface of Vieira da Silva, the impressioninst and modern inspiration changes as does the entire concept of art. There is also a Gauguin with pastel-coloured skies in a Tahiti landscape, a strongly-coloured, strongly delineated vase with lilac by Braque and a remarkable pastel of a bourgeoise and her maid by Zandomeneghi. Galerie Daniel Malingue, 26 Ave Matignon (42666033). Ends Dec 19.

WEST GERMANY

Munich. Staatsgalerie Moderner Kunst shows sculpture from East Germany. A result of the cultural agreement of May 1986 between East and West Germany, this exhibition covers four decades in 130 sculptures, some larger than life, and about 60 paintings of sculptures by 51 artists. It offers a view of graphic works that have not even been seen in East Germany before. Among the artists are Gustav Seitz, Fritz Cremer, Werner Stotzer, Hermann Glockner, Waldeman and Sabine Grzimek, Ingeborg Hunzinger and Franziska Lobeck. Ends Jan 3. Mannheim Stadtische Kunsthalle from Jan 23 to Feb 21.

Munich, Kunsthalle der Hypo-Kulturstiftung. Rene Magritte 1898-1967. This is the first extensive retrospective of the Belgium surrealist shown in Germany. Its 140 works from museums and private collections in Europe and the US will seek to counter criticism that he was not concerned about what he was drawing. Theatinerstr. 15. Ends Feb 14.

ITALY

Rome, Villa Medici (French Academy). Picasso - the last years (1968-1973). The French Academy, proprietorial as ever towards the greatest of modern artists, has mounted a riveting exhibition of etchings, drawings and oils mostly from the last five years of Picasso's life. Having practically never been ill, Picasso had to undergo a serious operation towards the end of 1965, aged 84. During the following year of convalescence, it seems that he brooded, not only about his health but about having lost his verve and creativity. He need not have worried. The exhibtion is so full of energy, invention and surprise as to be exhausting. The starting point of 1968 is the year in which Picasso began the first of his last two major series of engravings, known as the 347 Gravures. Many of these are on show, and alongside them and some of the drawings are placed photographic reproductions of pieces by Ingres, Poussin, Rembrandt, Goya and Manet which must have been at the back of Picasso's mind as he worked. Ends Jan 12.

Milan, Palazzo Reale. Eighteenth century Italian landscapes from private collections organised by the equivalent of the British National Trust, the Fondo Ambiente Italiano. The exhibition includes 70 delightful landscape paintings, divided into three major groups or schools - the Roman (Van Wittel and Hendrik-Frans Van Lint), the Venetian (Canaletto, Bellotto, Guardi) and the Neapolitan (Joli, Bonavia, Tommaso Ruiz and Pietro Antoniani). Ends Jan 17.

NETHERLANDS

Amsterdam, Brakke Grond. A festival presentation of the artsfrom Glasgow, with fashion shows, designer exhibitions and poetry readings. (24 04 94)

Amsterdam, Rijksmuseum Printroom. As a pendant to the survey of landscape painting in the main galleries, the printroom is showing a fine selection of 100 17th century drawings devoted to the theme of Land and Water. Ends Jan 3.

Amsterdam, Historical Museum. Contemporary photographs, utensils, menus and registers chart the rise and heyday of Amsterdam's grand hotels from 1860 to 1914. Ends Jan 17.

Amsterdam, Rijksmuseum. A sweeping view of 17th-century Dutch landscape painting. More than 100 works by over 50 artists trace the development of the genre and its offshoots from the dense creations of Vinckboons and Savery via the chilly winters of Avercamp, the tranquility of Ruysdael, the golden light of Cuyp, the towering cloudscapes of Ruisdael, to the wooded scenes of Hobbema. Ends Jan 3.

Leiden, Rijksmuseum voor Oudheden. Manuscripts, books and maps spanning 1,000 years of scientific imagination and knowledge. Ends Jan 17.

MADRID

Fundacion Juan March, Castello 77. Mark Rothko 1903-1970 includes 54 works by North American artist of Russian origin grouped with de Kooning and Pollack. This show was seen recently at the Tate in London. Ends Jan 3.

NEW YORK

Metropolitan Museum. 200 objects from the Age of Sultan Suleyman the Magnificent demonstrate the wealth and skills at the high point of the Ottoman empire in the sixteenth century through the large selection of illuminated manuscripts, the imperial wardrobe, ceramics and jewel-encrusted weapons. Ends Jan 17.

Art Institute. 48 key Impressionist and Post-Impressionist works from the Courtauld collection tour America with paintings by Cezanne, Manet, Renoir, Seurat and Gauguin. Ends Jan 3.

Center for African Art. Angles on African Art features 10 co-curators, ranging from an African tribesman to collector David Rockefeller, each of whom chose 10 of their favourite pieces, making a well-rounded and diverse show. Other curators are writer James Baldwin, artists Nancy Graves and Romare Bearden and curator William Rubin. Ends Jan 3.

Jan Krengler Gallery. This new gallery is inaugurated with 80 Cubist works by Picasso from the Marina Picasso Collection with two decades of paintings, drawings, sketchbooks, collages and prints from 1907 to 1926. Ends Dec 10. 41 E. 57th, 6th floor.

WASHINGTON

National Gallery. A Century of Modern Sculpture, the Patsy and Raymond Nasher Collection, contains major works by Rodin, Picasso, Matisse, Gabo, Giacometti, Ernst, Moore and Serra. Ends Jan 3.

TOKYO

Azabu Museum. Edo Pastimes: this exhibition of screens, scrolls and paintings with works by courtesans in the old Yoshiwara Pleasure Quarters of Edo (now Tokyo) evokes the colourful and lively leisure pursuits of an era when the Japanese were not obsessed with work. Ends Dec 25. Closed Mondays.

Tokyo Metropolitan Teien Art Museum, near Meguro. 100 New Scenic Spots in Tokyo. A modern version of the series of woodblock prints by Hiroshigo. The locations were chosen by popular vote among Tokyo's citizens and the metropolitan government then commissioned leading artists to depict them in oils or watercolour. The quality of the work is uneven but the exhibition offers a fascinating insight into what the Japanese consider picturesque. Worth seeing also for the Teien Museum itself, a former private residence with a lovely garden and one of the world's finest art deco interiors. It is rarely crowded either. Ends Dec 22.

Theatre

LONDON

The Rover (Mermaid). Jeremy Irons roisters into town in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. It plays in repertoire with the Chernobyl play, **Sarcophagus**, an urgent but clumsily-crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in. (236 5568/638 8891)

A Man For All Seasons (Savoy). Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren. (836 8888)

Antony and Cleopatra (Olivier). Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life. Judi Dench and Anthony Hopkins are battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. (928 2252)

The Phantom of the Opera (Her Majesty's). Spectacular emotionally nourishing new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Dave Willetts has succeeded Michael Crawford as the Phantom. (839 2244, CC379 6131/240 7200)

The Balcony (Barbican). Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrah's set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging costumes. (628 8795)

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs, improved book by James Goldman. Cast led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good. (379 5399)

Melon (Haymarket). Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menopausal mutterings; not vintage Gray. (930 9832)

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. Hot and livid, but new cast deemed less good. (836 3028, CC 379 6585)

A Small Family Business (Olivier). Brilliant new Alan Ayckbourn play about Britain on the fiddle in greedy times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale. (928 2252)

AMSTERDAM

The Woolgatherer (Garden Hotel Theatre). Lord Greystoke Productions presents a modern comedy by William Mastrosimone. Directed by John Hartnett. (64 21 21)

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221-1211)

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's children' poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality. (239 6262)

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film, like Shuffle Off To Buffalo, with the appropriately brash and leggy hoofing by a large chorus line. (977 9020)

A Chorus Line (Shubert). The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

La Cage aux Folles (Palace). With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages barely to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626)

I'm Not Rappaport (Booth). The Tony's best play of 1986 won on the strength of its work-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200)

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200)

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510)

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, with forgettable songs and dated leadenness in a stage full of characters, this is no classic. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033)

The Mahabharata (BAM Majestic). Peter Brook's nine-hour interpretation of the world's longest poem inspired the refurbishment of an old Brooklyn vaudeville theatre to accommodate it for a three-month stay as part of the Brooklyn Academy of Music's New Wave Festival. Ends Jan 3. (947 5850)

TOKYO

Macbeth (Imperial Theatre, Hibiya). Directed by Yukio Ninagawa, Shakespeare's play has been transposed from medieval Scotland into the samurai world of Japan in the 16th century. Although performed in Japanese, the production is so strong visually that the language barrier is transcended. Note the recurring image of cherry blossoms symbolising the evanesecence of life. This revival in Tokyo follows its triumph at the Edinburgh Festival and at the National Theatre in London. Ends Dec 28. (201 7777)

Kabuki (Kabuki-za). At 4pm a "new" play incorporating elements from existing dramas and based on the story of the 47 loyal retainers adapted, directed by and starring Kabuki's greatest showman, Enosuke, a specialist in spectacular stunts and quick-change routines. Excellent English earphone commentary. At 11am a potpourri of short items. For those with little time at their dispoosal tickets are avilable (on the day only) for a single act. Ends Dec 25 (541 3131).

Bunraku (National Theatre). The puppet theatre is one of Japan's most refined art forms. Each doll has three operators who remain in sight of the audience throughout the performance. Their presence is soon forgotten, however, as the narrator at the side of the stage unfolds the story to the accompaniment of the shamisen, a stringed instrument. The bunraku company is based in Osaka and visits Tokyo only twice a year. This month's performance includes Kiichihogen Sanryaku-kan, a play about a warrior who betrays his master and commits ritual suicide. Earphone commentary in English. Ends Dec 20. (265 7411)

Starlight Express (Yoyogi Sports Arena). (In English). An unaccountable smash hit in Lonbdon and New York, this ghastly farrago of a musical arrives in Tokyo as part of a world tour. The cast whizzes around the Yoyogi Sports Arena on roller-skates pretending to be choo-choos. The thin plot involves a race among the top trains in the world including Japan's bullet-train and there is not a single memorable tune. Nor is the high-tech staging any substitute for genuine imagination. However, the kids may love it. Ends Dec 11.(359 1166)

Twelfth Night (Ginza Saison Theatre, Kyobashi). (In Japanese). Directed by Adrian Noble of the Royal Shakespeare Companyu, this production of Shakespeare's most festive comedy is usually inventive but lacks a strong emotional core. The mixture of modern dress and Renaissance costume may be confusing to Japanese audiences but those familiar with the RSC style should take it in their stride. Some of the acting is weak, but an ex-pop singer Ran Ito is a spunky Viola and comedian Frankie Sakai an amusing Malvolio. Ends Dec 13. (535 0555)

Music

LONDON

Philharmonia Orchestra conducted by Giuseppe Sinopoli with Mariko Senju, violin. Mendelssohn and Bruckner. Royal Festival Hall (Mon) (928 3191).

Alfred Brendel, piano: Schubert. Royal Festival Hall. (Tue).

BBC Symphony Orchestra conducted by Gunter Wand. Mozart and Bruckner, Royal Festival Hall (Wed).

London Mozart Players conducted by Jane Glover, with Cristina Ortiz, piano. Michael Haydn, Haydn, David Matthews and Mozart. Queen Elizabeth Hall (Wed). (928 3191)

English Chamber Orchestra and London Barbican Consort: Vivaldi and Handel, St. John's Smith Square (Wed). (222 1061)

Monteverdi Choir and English Baroque Soloists conducted by John Eliot Gardiner: Purcell. St. John's Smith Square (Thur).

Royal Philharmonic Orchestra conducted by Andre Previn, with Salvatore Accardo: Brahms and Sibelius, Royal Festival Hall (Thur).

Bournemouth Sinfonietta conducted by Roger Norrington with Anthony Rolfe Johnson. Schubert and Britten. Queen Elizabeth Hall (Thur).

PARIS

Montjoie Choir with the young Franco-German Philharmonic conducted by Justus von Websky: Beethoven, Salle Pleyel (Mon). (45630796)

Orchestre National de France and Radio France Choir conducted by Ernest Bour: Varese, Debussy, Roussel, Theatre des Champs Elysees (Mon). (42301516)

Sensational Nightingales and Golden Gate quartet sing negro spirituals and gospel songs at Saint Germain des Press church (Mon). (42771883)

Antibel-Canto: Malipiero, Casella, Pizetti, Respighi, Comedie des Champs Elysees (Mon). (45041215)

Ensemble Orchestral de Paris conducted by Armin Jordan with Edith Mathis, Soprano: Villa Lobos, Bach, Haydn, Mozart, Salle Pleyel (Tue). (45630795).

Orchestre de Paris conducted by Semyon Bychkov, Christine Barbaux, soprano: Haydn, Mozart, Strauss, Salle Pleyel (Wed, Thur). (45630796)

Nouvel Orchestre Philharmonique and Maitrise Radio France conducted by Michel Lasserre de Rozel: Pierne's The Children in Bethlehem, Saint-Germain-des-Pres Church (Thur). (42301516)

NETHERLANDS

Amsterdam Concertgebouw. Bernard Haitink conducts the Concertgebouw Orchestra: Beethoven, Bruckner (Wed, Thur). **Recital Hall.** Artaria Ensemble: Spohr, Beethoven (Tue). The Schonberg Quartet: Zemlinsky, Schonberg (Thur). (71 83 45)

Utrecht, Vredenburg Recital Hall. Prazak String Quartet with Martijn van den Hoek, piano, and Hans Roelofsen, double bass: Beethoven, Schubert (Tue). The Allegri String Quartet, with Rian de Waal, piano, and Rudolf Senn, double bass: Dvorak (Wed). (31 45 44)

TOKYO

Reibo Aoki (shakuhachi). Leading master of the Japanese bamboo flute. Dai-Ichi Seimei Hall, Hibiya (Mon). (941 6016)

Ely Ameling, soprano, with Rudolf Jansen, piano, sings Schumann, Satie, Poulenc. Suntory Hall (Tue). (573 3588)

Barbara Hendricks, sopano, sings Brahms, Faure, Strauss. Tokyo Bunka Kaikan (Tue). (403 8011)

Shinsei Nihon Symphony Orchestra conducted by Reinhard Peters with Keiko Urushihara, violin, Noboru Kamimura, cello and Akiyoshi Sato, piano: Beethoven and Brahms. (Wed) Tokyo Bunka Kaikan. (985 4836)

Barry Tuckwell (horn) with NHK Symphony Orchestra conducted by Berislaw Klobucar: Strauss, Bruckner (Thur), NHK Hall. (465 1780)

ARTS

Cinema/Nigel Andrews

Pre-permissive prudery put to flight

Wish You Were Here directed by David Leland
Housekeeping directed by Bill Forsyth
My Sweet Little Village directed by Jiri Menzel

David Leland's *Wish You Were Here* is an irresistible comedy of manners: good manners and bad manners (but mostly bad). The subject is growing up in the south of England in the 1950s. Anyone who went through that formative experience first-hand (as I did) can recognize this movie's assailant truthfulness.

There were three plain facts about life in southern England then. First: the weather was better. Second: family values were sacred. Third: there was no such thing as sex.

Anyone who disputes the first can examine the meteorological records. Anyone who disputes the second can scan the biographies and social histories of the time. Anyone disputing the third can think back to the seismic impact the movie of *Room At The Top* had at the decade's close. That film's steamy sex scenes (which now seem about as steamy as a vicar's lightly boiled egg) had critics gasping, audiences flocking and British cinema switching track virtually overnight into the Swinging Sixties.

Wish You Were Here takes off from the early, 50s-set chapters of Paul Bailey's biography of Cynthia Payne, *An English Madam*. The 16-year-old heroine Linda (a knockout debut, at once raucous and pertly insouciant by Emily Lloyd) is the young Madam Cyn thinly disguised as a tearaway teenager growing up in a genteel South Coast resort town. With her puppy-fat face, "Betty Grable legs" (her own description but accurate) and tossing, contemptuous vitality, Linda is the scourge of her family and of most of the town's menfolk. Her parents take a dim view of her language ("Up your bum" is her latest favourite, chanted over and over one night as she dances round the garden). And her boyfriends are scared silly by her fearless sexuality.

One can hardly blame them. One moment she is demonstrating her no-nonsense courting technique: "I fancy you. You can take me to the pictures." The next moment, she is showing off her knickers to passing bus-men (one of her early beaux is a conductor). Later still, she is denting a dandyish boy's ego after a night of romance: "Do you fancy me?," asks the proud possessor of yellow pajamas and a cigarette-holder. "Not half so much as you fancy yourself," she says.

Leland's glorious first film as director (he wrote *Personal Services* and co-wrote *Mona Lisa*) is an inverted fairy tale. Instead of romantic goodness coming to rout or rescue an evil-tyrannised kingdom, virtuous prudery is put to flight by precocious sensuality. Even when Linda gets her own come-uppance - drifting into a squalid affair with an older man (an eerily powerful performance from Tom Bell) - her infant wisdom and resilient cheer triumph with all the finality of a principal boy in a pantomime. We never even need to shout warnings of "Behind you!" Her self-awareness is such that she is more likely to shout it to us: warning us to be ever on the qui-vive against the advance on our rears of hypocrisy or repression.

The movie too is on guard against all potential dangers. For all its comic candour - climaxing in a tea-room showdown between Linda and her Dad in which she stuns the entire clientele by climbing on a table-top and endeavouring to lead a chant of "S-E-X" - the film never turns merely into "Carry On Taboo-Bashing." For all its potential seaminess, in scenes like our heroine's first potting-shed seduction by (or of) Tom Bell, it never turns into voyeurism for the raincoat set. Leland's script is subtle, empathic and many-faceted. And the sun-washed pastels of Ian Wilson's photography cast a magical freshness over seaside Britain: as if the movie were a piece of rock with Hope, Humanity and Optimism written (however variably, according to the bites the story takes) all through it.

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Bill Forsyth's script for his film *Housekeeping* should, sad to report, have had something else written all through it: corrections and/or excisions in blue pencil. Jetting across the Atlantic to make his first non-British movie (shot in Canada but set in America's Washington State), Scotland's gifted comic humanist, maker of *Gregory's Girl* and *Local Hero*, seems to have left his sense of humour behind at Heathrow. How else could the film's promising source material - Marilynne Robinson's novel about two orphaned sisters growing up with scatty, feckless aunt in a mountain-girt small town - turn into two hours of glum cinematic penitence.

The key role clearly is, or should have been, the aunt's: a distrait, unkempt nature-lover who turns her back on housekeeping whenever possible to haul her favoured niece (Sara Walker) off to trips into the hills, nights-out on the lake or stolen rides on trains. Diane Keaton was to have starred, but she jumped ship (filmically speaking) shortly before shooting, to be replaced by Christine Lahti. Miss L is a tall feisty lady, whose husky voice and sad-funny charisma have done redemptive wonders to bad films (*Whose Life Is It Anyway?*, *Just Between Friends*). But she is not Diane Keaton. Where Keaton might have transformed the story with her haywire beauty and air of scatterbrain spontaneity - when she speaks, every dialogue line seems to come with a "Eureka!" - Lahti merely bustles bravely, effortfully, in the story's wake.

And "wake" is the word. Shot in a dour Celtic gloom, the movie moves about from vignette to vignette as if it were tiptoeing forlornly in respect for the dead. Scenes that should be funny or eerie - like the floodwater that invades the house and floats pots, pans and suitcases round the rooms - make no impact. And scenes that should bring a surreal enchantment - a frost-caked woodland that Lahti proudly shows off to her niece - merely toll further the knell of inconsequentiality. Meanwhile the story is advanced, like a cart by an ageing mule, by endless bits of voice-over narrative.

The only part of the movie that one can diagnose as alive and well is the early part. The heroine's family history - Grandpa who painted mountains and died in a train which plunged into a lake, Mama who drowned herself - is summarised like a gleaming mosaic of doleful-funny remembrance. Here the tiny, shining stones of humour and incongruity are the recognizably from the same imaginative quarry that Forsyth used in his earlier films.

Emily Lloyd in "Wish You Were Here"

*

Ever since the Russians invaded Czechoslovakia to destroy the Prague spring, the Czech film industry has been turning out a non-stop fake spring. Jiri Menzel's *My Sweet Little Village* is the latest and most distressing sample: a twee rural fresco, in which we are asked to sigh and titter over the fun and follies of people living under Communism. There are the two Laurel and Hardy-like construction workers, the frenzied young adulterous couple, the funny old doctor, the funny old painter, the funny old mayor, and so on.

For British viewers, all this terminal folksiness is interpreted through English subtitles. At least I think they are English. "Why don't you shit yourself, cardboard dude?" shouts one motorist to another after a near-accident. "Gotta any problems?" asks someone else, later, presumably having just returned from Little Italy. And what more natural enquiry, for a passing traveller seeking accommodation in the village, than "What about some abode, ma'am?."

Menzel's film undoubtedly qualifies for one of the Ten Worst of the year (any year). Those seeking a Ten Best should home in on the ICA. That ever-enterprising cinema has picked its own 1987 chart-toppers and screens them in repertory from this week. They include: *Blue Velvet*, *River's Edge*, *White Of The Eye*, *The Sacrifice* and *The Belly Of An Architect*. All movies jostling at the gates of my very own pantheon, which will be published later this month.

Giselle/Covent Garden

Clement Crisp

Giselle returned this week to the repertory at Covent Garden. The staging by Peter Wright, with its post-hurricane forest setting of fallen and uprooted trees by John Macfarlane, is the most extreme example of the Royal Ballet's production view of the old classics. Dramatic motivation is all: not an entrance, not a gesture, but has its logic; not a character in the fearsome gaggle of the Courland hunting party but has been beavering away at an identity, and is damn well going to let us know all about it. The worst and most desperate example of this is the so-called "Leader of the Hunt," who, as played by Christopher Carr, is a blaze of petulant effeminacy, eager to snatch the hunting horn away from Hilarion at the start of the mad-scene.

The sum effect is to sabotage the identity of this charmer of the Romantic era as a work in which we may comprehend something more than the externals of the action, and understand its spirituality. Tied to a laboured literalism, Giselle's tragedy loses its wings. Very different the production values currently obtaining in Moscow and Leningrad, where the narrative is drawn in with a minimum of fuss. Dance values, the broad horizons of the movement itself, uncluttered by a zealous concern for story-telling, open up horizons of meaning undreamed of by the Royal Ballet.

There are undoubted rewards to the Covent Garden manner in the second act, where the wilis' attack upon Hilarion, and Albrecht's agonisings, become marvellously urgent, and recapture the menace of the old legend that inspired the ballet. But elsewhere, the clarity of the drama is obfuscated by the unrelenting activities of the supporting cast: many of them should be nailed to the floor. Leading the opening performances, Lesley Collier gives an interpretation meticulous in setting out the dance. Here is the text admirably pure in statement, with nothing sketchy, and exquisite moments - a pirouette held in a lovely decrescendo that seems to offer her love to Albrecht with sincerest feeling; little beaten steps clear and true - to illuminate the general distinction of her dancing. Her Albrecht on Wednesday was Mark Silver, rather too pale in manner and movement to convey the fine flame of Romanticism that should burn through the second act's terrors. The corps de ballet of wilis I thought impressive; the Courland hunting party will appeal to Monty Python fans. How, I wonder, did they contrive that generous bag of game? Perhaps the birds were stunned by the costuming and the fusillade of smirks and empty posturing that are so generously on offer.

Obituary/Peter Darrell

Clement Crisp

Peter Darrell died in hospital in Glasgow on Wednesday night, following a cerebral haemorrhage. As choreographer, and artistic director of Scottish Ballet, Darrell was an influential and central figure in the development of British ballet during the past three decades.

Rorn in Richmond, Surrey in 1929, he studied at the Sadler's Wells Ballet School and was an early member of Sadler's Wells Theatre Ballet. His career then branched out into the theatre, where he danced in musicals, and to Sweden, where he joined the Malmo Opera Ballet. His choreographic ability was first seen in works staged in London for Ballet Workshop during the early 1950s, but the crucial event came with his friendship with Elizabeth West, with whom he joined in founding Western Theatre Ballet.

Created as a regional company concerned with developing a new theatricality and social relevance in dance, Western Theatre Ballet provided an ideal setting for Darrell's choreographies, and these in turn gave the company its clear and exciting image. Such ballets as *The Prisoners*, *A Wedding Present*, *Mods and Rockers*, were contemporary in imagery and theme, responding to the ideas then current in the theatre. Elizabeth West's death in a mountain accident made Darrell director as well as chief choreographer of the company, and he subsequently guided its development, creating a series of major works which included the full-length *Sun into Darkness*. In 1969 the troupe transferred to Glagow to become Scottish Ballet.

To the many challenges of its new status as a national company, Darrell brought exceptional artistic and directoral acumen. He supervised the creation of a repertory which offered the traditional classics in innovative and imaginative stagings. He encouraged a diversification of the company's activities, to ensure that small theatres and remote communities might also see members of the company. He invited other creators to work with the troupe, and continued to provide a succession of vivid productions, not least such successes as *Tales of Hoffmann*. Many of the greatest dancers of the time - Fonteyn, Nureyev, Makarova, Bujones - were happy to make guest appearances with the company, but Darrell was always first concerned with the artistic well-being of his own dancers, and in Elaine MacDonald he fostered an exceptional ballerina in many created roles.

Peter Darrell was a man of the theatre above all else, and his ballets and his artistic judgments never ignored the fact that dancing is not a remote and introspective activity, but an art of the theatre. He was a man of wonderful humour, strong enthusiasms: his memorial is not only his company and his choreography, but the marked influence he had upon the way we think of ballet today.

Ben Elton/Hammersmith Odeon

Antony Thorncroft

Ben Elton is the Bernard Manning of alternative comedy. True Manning (a Godot like figure, much talked about, rarely seen) is immense while Elton is weeny; Manning is immobile at the microphone while Elton tears across the stage like an electric mouse on speed; Manning is grotesquely dapper while Elton, in his shiny, baggy suit, is politically correct in despising fashion. But both get their laughs from the same source - sex. The comic possibilties of the subject pay for their little luxuries.

Of course for Elton sex is only a disaster area for men. While Manning is universally sexist, Elton out-does any feminist with his graphic descriptions of the brutalism, incompetence, and boorishness with which males approach the sheets. Elton is the flag carrier for the wimps of the world.

He differs from the mighty Bernard in one other respect: Manning tells jokes while Elton pursues the American stream of consciousness approach to comedy when just by mouthing the correct buzz words the audience goes into spasm. He opens all the ultimate closets in our minds, exposes those secrets we share with our blushes, and forces laughter, well, a rueful grin, by his intimate probing. Queen Victoria would not have understood a word of it and Elton would give even a modern Bishop doubts.

After the interval in his two hour plus rant Elton pays his respects to another Establishment comedian, Ted Rogers. The last time I saw Rogers most of his material was built around TV commercials. Elton maintains the tradition. Just why saying the words "The Whiskas lady" creates mayhem I do not know, but venom about advertising, hardly the most heinous crime in the modern world, sustains the second half, with a brief coda on bowels.

Without the outrage and the aggression there would be little to Ben Elton. He is reminiscent of Music Hall comedians like Jimmy Wheeler in the way he attacks the audience with the violence of his personality, but he is without charm. Worst of all he lacks a sense of humour, taking himself very seriously indeed. He also encourages the cheap tricks of nursing laughs from stumbles in his script and drawing attention to his rare ad libs. He is also a bigot. You can attack men, not women; whites, not blacks; the middle class, not the workers. This is ghetto humour, stimulating, but ultimately sad. Like Woody Allen, Ben Elton makes a good living from his paranoia, (extra shows have been added to his Hammersmith run) but no one need feel guilty about not joining him in is ideological straight-jacket.

Stradivari gala/Barbican Hall

Max Loppert

Antonio Stradivari, one of the two supreme violin-makers in the history of the instrument, died 250 years ago this month. His is an anniversary worth celebrating - not least for the extraordinary fact that with the passage of time his name (unlike that of Guarneri del Gesu, the "other" craftsman-genius) has come to be associated with the very soul of the instrument, and the mystique attached thereto has become as powerful as that which surrounds the great violinists of history.

The Royal Academy of Music, itself the proud possessor of two Strad violins and one viola, took the occasion of the anniversary to devise Wednesday's Gala Concert in aid of the RAM Appeal. This was sponsored by Shearson Lehman International, and masterminded by Peter Biddulph, the London violin dealer; 13 Stradivari (11 violins, one viola and one cello) had been borrowed for members of the English Chamber Orchestra (under Yehudi Menuhin) to play on, and all nine of the soloists, seven violinists and two cellists, were distinguished exponents of the brand name.

Galas are not usually occasions for great music-making; and this one - under the gaze of television cameras, with a photographer periodically clicking away to annoy left-side stalls patrons, and with a programme made mainly of bits and pieces - did not prove the exception to that general rule. It was, of course, interesting to compare instrumental sounds, to contrast different splendid instruments under different hands and different technical styles. But any additional enrichment of the ECO string tone that might have resulted from the loan was undermined by the diffuseness of much of the ensemble under Menuhin's genial, imprecise beat; and not all the soloists did themselves anything like justice (Robert Cohen, for instance, who ended the first half with the final movement of the Haydn C major Cello Concerto, made a splashy, showy mess of its fast figuration).

Of the entire programme I enjoyed most the Schubert A major Adagio and Rondo, played with dapper sweetness by Jose-Luis Garcia (ECO leader). And in the second half, the idea of allotting the four component concertos of *The Four Seasons* to four different soloists - Manoug Parikian (noble and pure in "Spring"), Maurice Hasson (the evening's most brilliant technician, in "Summer"), Nigel Kennedy, and the young American Daniel Phillips - proved rather more successful than might have been guessed. But on the whole it was an evening for good will and good intentions rather than for any special illumination of the Stradivari subject.

A Celebration for The Sitwells on the South Bank

To commemorate Dame Edith's 100th Anniversary and Sir Sacheverell's 90th birthday, the Park Lane Group is holding "A Celebration for The Sitwells" in words and music which will take place this Sunday at the Purcell Room on the South Bank.

Taking part will be Sir Sacheverell himself with readings, Victoria Glendinning and Patricia Routledge remembering Dame Edith and reciting some of her poems, and music for the piano by Liszt and Walton played by David Owen Norris.

Tickets are available from the Royal Festival Hall box office.

Nash Ensemble/Wigmore Hall

Richard Fairman

For a chamber group like the Nash Ensemble, who are able to form and re-form in any number of different combinations, the French music written in the early years of this century is a happy hunting-ground. There are no pre-set rules here and part of the delight in this music comes from hearing the ingenuity with which the composer has made his choice of instruments and his imagination in using them.

For this concert - the mid-point in the Nash Ensemble's Parisian series - the major works were two sets of songs for solo voice and chamber ensemble. This is a form which the French have made quite their own. All the leading composers of *melodies* contributed to it, though none more memorably than Ravel, whose Mallarme settings with their iridescent writing for solo wind and strings are true Nash material through and through.

In this programme, however, they did not stop at anything so familiar. With typical inventiveness the group paired the Ravel songs with the *Quatre poemes Hindous* by Maurice Delage, which are scored for a remarkably similar group. These are relatively little-known (despite a seductive recording made some years ago by Janet Baker) but for no good reason; for Delage writes with much of Ravel's precision and even appropriates his lush, exotic feel for oriental textures.

The second song, inspired by a journey to Lahore in 1912, cleverly balances imitation and originality. Solo cello and flute imitate traditional Indian instruments and the voice improvises an Eastern cadenza. Sarah Walker caught its relaxed, sun-drenched tone beautifully (the Ravel had been impressively chaste in tone, though with not quite the verbal nuance on which it thrives) and Lionel Friend let her down at only a couple of moments when the voice was covered.

These vocal items were supported by a pair of trios. The Ravel Piano Trio, with Ian Brown the forceful pianist, received an ardent performance. And in the Trio for flute, viola and cello by Roussel we had an interesting find, a piece very much in the tradition of pleasing French works for flute and yet astringent in its harmonies in a way its predecessors never were. The series has three more concerts - and doubtless no fewer delights and discoveries - to go.

The 1987 Wolfson Literary Award winners

The 1987 Wolfson Literary Awards for History (£7,500 to each winner) have been won by Professor R.R. Davies of the University College of Wales, Aberystwyth, for *Conquest, Coexistence and Change - Wales 1063-1415* (Oxford University Press with the University of Wales Press) and Dr John Pemble for *The Mediterranean Passion* (also OUP).

Saleroom/Antony Thorncroft

Manuscripts appreciate

At last some good news for the salerooms. A group of forty five medieval and Renaissance manuscripts, from the collection of the late Estelle Doheny (a Princess through Papal patronage) sold for £5,787,595 at Christie's on Wednesday night, double the high estimate. All found buyers.

Maggs, the London dealer, paid the top price of £1,320,000 for a 12th century manuscript, the Zacharias Chrysopolitanus, which was produced in southern England, possibly at Winchester. It has 179 leaves, with sumptuous decorated initials. Beres, of Paris, acquired an early 16th century Book of Hours, probably from Tours, for £888,000, and the Portolan atlas, produced in Venice in 1544, made £660,000, an auction record for an atlas manuscript.

Moving up to date in the literary field Sotheby's in New York on Wednesday sold Einstein's autograph manuscript, in German, of his theory of relativity, for £633,244. It is both the earliest and the longest manuscript on the subject in Einstein's hand, dating to 1912, and to his pre-American days in Prague (or Zurich) and running to 72 leaves. This document was unknown and gives ther most detailed thoughts by Einstein on his theory. Not surprisingly the price was almost double the estimate.

But Sotheby's had a disappointment. A very rare complete copy of Audubon's "Birds of America," perhaps the most famous illustrated book ever produced, was unsold at £520,833, half the bid that was anticipated.

Back in London Sotheby's was having difficulties with its auction of illustrated children's books, usually a very strong market. The two key lots, an archive of Kate Greenaway, including first editions of virtually all the books illustrated by her, was unsold at £20,000 (as against an estimate of £40,000) while a collection of material relating to "The History of John Gilpin", William Cowper's comic verse about the man whose horse ran away with him was bought in at a paltry £9,000, way below expectation.

There was encouragement for Sotheby's yesterday when post war and contemporary art brought in £3,203,200, with a reasonable 24.48 per cent unsold. There were plenty of records, not least the £247,500 paid for a 1949 abstract "Composition (Le Reve)" by Maria-Helena Vieira da Silva." The price was over double the top estimate. Another woman artist to achieve an auction record price was Germaine Richier: "Le Grain," a 57 inch high bronze executed in 1955 and depicting an hermaphroditic figure made £121,000, also well above estimate.

Impressionst and early 20th century works of art may be out of favour but there is still interest in recent stuff. "Au Revoir" by Jean Dubuffet was below estimate but sold at £209,000, and there was a record price of £198,000 paid for "Little Boy" by Karel Appel. There was also a record for Jean Fautrier: "Ile by happy" made £154,00.

Prints have been a strong market lately but there was some faltering yesterday at Sotheby's when modern prints made £619,906 but with over 37 per cent unsold. The two most important lots, by Chagall and Max Ernst, failed to find buyers and the best price was the £45,100 paid by Seibu, the Japanese department store, for "Quai de la Tournelle" by Chagall.

Cheek by Jowl theatre wins the first LWT Plays on Stage award

Cheek by Jowl theatre company has won the first LWT Plays on Stage award of £15,000. The prize goes to a company that comes up with a good idea for a new production but cannot afford to present it. The aim is to encourage British theatre companies to stage new work.

The play, which Cheek by Jowl will now stage within the next year, is *Philoctetes* by Sophocles. Other prize winners were the Bush Theatre, which gets £12,500 to help it produce *The Fatherland* by Murray Watts, and Wildcat Stage Productions of Glasgow, which is keen on *Waiting on One* by Anne Downie.

Arts guide

December 4-11

Opera and Ballet

PARIS

Kirov. The temple of classical ballet has brought, with Swan Lake and Giselle, a revelation: the couple Farouk Ruzimatov and Altynai Assylmuratova. Palais des Congres (426 62075) until Jan 10.

Jiri Kylian and the Nederlands Dans Theater performs to music by Stravinsky, Mozart and Debussy until Dec 13, to music by Toru Takemitsu, Iannis Xenakis, Minku, Mozart and Jon Hassell until Dec 20. Theatre de la Ville. (427 42277)

Norma alternates with Macbeth at the Paris Opera.

Don Giovanni conducted by Lothar Zagrosek with Francois le Roux in the title role and Helene Garetti as Donna Elvira in Oslo Opera's dynamic production by Goran Jarvefelt at the Opera Comique. (429 60611)

WEST GERMANY

Berlin, Deutsche Oper. Elektra has a strong cast with Helga Dernesch, Janis Martin, Sabine Hass and Gerd Feldhoff. Manon Lescaut has Raina Kabaivanska, George Fortune and Giorgio Merighi. Tannhaeuser with Spas Wenkoff brilliant in the title role.

Hamburg, Opera. Il Trovatore, sung in Italian, features Dianne Curry, Giorgio Zancanaro and Harald Stamm. La Boheme will be conducted by Stefan Soltesz.

Cologne, Opera. Tannhaeuser stars Rene Kollo in the title role. The Magic Flute has fine interpretations by Hellen Kwon as Queen of the Night and Matthias Hoele as Sarastro. Eine Florentinische Tragoedie/Gianni Schicchi round of the week.

Stuttgart, Wuerttembergisches Staatstheater. Hansel und Gretel with Helene Schneiderman, Joern W. Wilsing and Irmgard Stadler.

Munich, Bayerische Staatsoper. Les Contes d'Hoffmann in Otto Schenk's production features Cyndia Sieden, Trudeliese Schmidt, Elena Cotrubas, and Claes H. Ahnsjo. Juan Pons leads a strong cast in Macbeth.

NETHERLANDS

Groningen, Schouwburg. Opera Forum with Clemenza di Tito directed by Vittorio Patane and conducted by Francois Huybrechts (Thur). (12 56 45).

Eindhoven, Schouwburg. The Hoofdstad Operetta company in Strauss's Wiener Blut directed by Dick Top and conducted by Martin Malzer (Wed). (1 11 22).

ITALY

Milan, Teatro alla Scala. Don Giovanni conducted by Riccardo Muti, directed by Giorgio Strehler (director of Milan's Piccolo Frigerio) with costumes by Franca Squarciapino. Thomas Allen sings the title role, with Edita Gruberova, Suzanne Mentzer and Claudio Desderi. (80 91 26).

Turin, Teatro Regio. Don Giovanni, with the Verdi veteran Renato Bruson making his debut in a Mozart opera, conducted by Miklos Erdelyi. A new production directed by Luigi Squarzina and designed by Paolo Momasi. (548 000)

Trieste, Teatro Comunale Giuseppe Verdi. Donizetti's La Figlia del Reggimento, directed by Filippo Crivelli and based on Zeffirelli's production for the Teatro Massimo in Palermo in 1959. The cast includes Luciana Serra, Bertolo and Rosa Laghezza. Carlo Rizzi conducts. (631 948).

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Friday December 4 1987

Deficits and the markets

ARE THE governments of the US, Japan and West Germany fiddling while the world economy burns or does recent official activity, especially in the US and West Germany, represent a serious attempt to put out the fire?

"Black Monday" on October 19 has convinced most observers that recession is now the major risk. Policy changes since that day can, therefore, be assessed against two criteria: do they contribute to adjustment of the external account imbalances and, granting the difficulties of fine-tuning, do they at least minimise the chances of a severe recession in the world economy?

The main changes since the fall of the stock markets have been in monetary policy and exchange rates. Yesterday's announcement in West Germany of a cut in the discount rate from 3 per cent to 2½ per cent is noteworthy, since that rate is now at its lowest since 1948. Furthermore, that cut has occurred despite a persistent tendency for monetary growth to exceed the Bundesbank's targets.

Abandonment of the attempt to stabilise the dollar is equally important. Thus since October 19 the dollar has depreciated by 8 per cent against the yen and 9 per cent against the D-Mark.

Where governments have competed to do as little as possible is in fiscal policy. The efforts in the US will, at best, consolidate the reduction in the deficit achieved in the fiscal year ending September 1987. In the case of West Germany the programme of subsidised lending announced this week looks nugatory, with its budgetary cost of just DM2.6bn over a 10-year period.

Wealth effect

In analysing these changes it has to be recalled that changes in the pattern of current account imbalances demand differential changes in the pattern of expenditure and output across the major countries. The trick is going to be to bring about such changes without lowering the growth of overall output.

It is the level of world economic activity rather than the distribution of current account surpluses and deficits that is more likely to be affected by changes so far. The "wealth effect" of the stock market crash is likely to be greater in the US than elsewhere but the direction of the effect will be the same in all countries. Similarly there has been some monetary easing in all major countries, though most in West Germany, but this probably does no more than go a small way towards equalising growth in demand.

While monetary and fiscal policy may be a little more stimulatory outside the US than inside, the fall in the dollar will tend to operate in the opposite direction. Depreciation on its own is not so much a policy for current account adjustment, as a policy of macroeconomic stimulus, especially in an economy with low unemployment like the US.

Accordingly, a stock market crash that was probably brought about by concern about the imbalances among the major economies has been met not by a programme of correction, but by a general offsetting stimulus.

Main problem

Is this surprising? It has been quite clear for some time that the US, in particular, would rather have the external deficit than the policies required to eliminate it, especially in an election-year. West Germany, much more than Japan, is content with low growth, since it remains a wealthy economy, with low unemployment by European standards and an aversion to risk-taking.

The main problem is that private investors have not wanted to finance the resulting deficits. With West German and Japanese rates of interest as low as they are likely to get and the US unwilling to raise them further, are incentives for finance of the US external deficit now adequate?

The key issue is expectations about the course of the exchange rate. Unless foreign investors in US assets are convinced that the exchange rate has at last reached its trough, willing finance is improbable, except in their own currencies. So every time Mr James Baker, US Secretary of the Treasury, declares himself happy to see the dollar fall he postpones such voluntary financing, without necessarily improving the prospects for external adjustment.

An optimist might still hope that policy changes before the crash will be sufficient to bring about the desired adjustments. A pessimist would fear that they are not, in which case the markets may be forced to repeat their message.

Meanwhile, without a commitment by the US to hold the dollar exchange rate, one will just have to wait to see when the market has had enough of decline. It is possible that the result will be a massive overshoot of the dollar's long term equilibrium level. In short, action so far does not appear likely to extinguish the fire, but that can hardly be surprising when the fire-fighters lit it in the first place.

Steel - a return to normality

IF, AS NOW seems possible, British Steel Corporation is sold to the private sector next year, this would mark perhaps the most important success for the Thatcher Government's policy towards state-owned enterprise. Moreover, it would open a new era for an industry which has suffered more than any other from ill-judged government intervention throughout the post-war period.

The damage has been done not only by the ping-pong game of nationalisation under the Attlee administration, privatisation under the Tories and then nationalisation again. Tory governments have been at least as guilty as Labour ones of obstructing, mainly in response to short-term political pressures, the process of change and modernisation in the industry. There is now a possibility that steel could at last become a normal business, with a lower political profile.

After the second world war the right course for the industry would have been to concentrate new investment in the best sites so as to take advantage of economies of scale. Instead, a mixture of managerial conservatism and lack of vision on the part of government served to perpetuate the fragmented structure of the industry. The famous decision by the Macmillan Government to split the fourth strip mill between Scotland and South Wales was a classic case of politics triumphing over efficiency.

Determined attack

In theory nationalisation in 1967 was an opportunity for a radical approach to the industry's structural problems; this was indeed one of the arguments used for bringing steel back into public ownership. Instead, state control made the problems more acute. Quite apart from the extreme difficulty of welding together a large number of separate companies, nationalisation had the predictable consequence of politicising commercial decisions. The task of adapting to the crisis in world steel which set in after 1973 was greatly complicated by the reluctance of governments to incur the odium of plant closures.

It was the long strike of early 1980 which helped to create the conditions for a more determined attack on excess capacity and which paved the way for a return to the private sector. The industry - managers, employees, trade union leaders - was made to realise during the strike that the country could survive without it, that there were other sources of steel available and that there was no alternative but to adjust to the market.

Extensive rationalisation subsequently took place both within BSC and between it and the private sector. The restructuring still has some way to go - in the long term there is no need for as many as five large integrated sites - but costs have been brought down to more competitive levels. Even though imports are likely to rise in coming years - especially, perhaps, of semi-finished steel from countries rich in raw materials - there is no reason why an efficient industry which keeps close to its customers cannot survive profitably in the UK.

Normal supplier

Given the criticisms of other privatisations, questions are bound be raised about British Steel's large share (some 60 per cent in tonnage terms) of the home market. The case for breaking it up should be explored, but on the face of it there are no obvious advantages in doing so and some significant costs. What matters is that customers should be free to buy elsewhere, both from independent mills in the UK and from overseas. This makes it all the more important that the quota system within the European Community should be dismantled and that the industry should be exposed to competition from outside Europe. If these conditions are satisfied, then steel can take its place as a normal supplier of industrial materials, no longer a commanding height of the economy, but a business like any other.

As Mr Gorbachev prepares for the Washington summit **Patrick Cockburn** looks at the Soviet leader's strengths and weaknesses at home

The struggle to make reform stick

MIKHAIL GORBACHEV goes to the Washington summit with President Ronald Reagan on Monday with his plans to rejuvenate the Communist Party as the Soviet Union's instrument of change dented but still intact after the sacking of Boris Yeltsin, the radical leader of the party in Moscow.

The setback for reform at home is unlikely to have any immediate effect on Mr Gorbachev's freedom to negotiate with President Reagan. The record of his two and a half years in power is that there is a general consensus on foreign policy within the Soviet leadership, a measure of agreement on economic reform - but deep and lasting divisions on political change.

Mr Yeltsin succeeded in detonating the long expected conservative reaction within the top and middle ranks of the party on October 21, when he accused many of the 300 leading Soviet officials belonging to the Central Committee of covertly sabotaging reform.

If this conservative backlash prevails, it will have a serious impact because it will destroy the political basis for Mr Gorbachev's diplomacy, which is to be a more flexible partner in the international arena. This is in contrast to the concentration under previous leaders purely on state to state relations.

One of the main successes of Mr Gorbachev's leadership has been the change in foreign perceptions of the Soviet Union away from the demonology of the "evil empire". But the consequence of this is that the Kremlin knows domestic political events such as the fate of Mr Yeltsin, which three years ago would have been considered nobody's business but its own, now take on a different aspect effecting its dealings abroad.

Mr Yeltsin's critics at the meeting on November 11, which dismissed him, recognised this. One party official said: "Tomorrow we shall probably hear political speculation abroad and from our own people about the crisis in restructuring, and we shall see people trying to make Boris Nikolayevich Yeltsin into a Jesus Christ figure who has suffered for revolutionary commitment to social renewal and democracy."

The Yeltsin affair therefore illustrates three new, but somewhat contradictory, developments in Soviet politics. The first is a conservative reaction to reform which has gathered strength since the summer, the second a more active public opinion at home. The third is the need, important if presenting a more open face to the world is to form a key part of foreign policy, to take seriously what the outside world thinks about the way the Soviet Union runs its society.

At present the first of these points is the most important. Up to the time of Mr Yeltsin's outburst, Mr Gorbachev had made extraordinarily successful use of a single tactic to defuse opposition to radical change within a largely conservative Central Committee. This tactic was always to criticise conservatism as an attitude of mind and never to identify factions within the party as opponents of reform.

The reason for this approach is that Mr Gorbachev needs simultaneously to pursue two conflicting aims: to preserve the unity of the party, which is the only effective lever for change in the Soviet Union, and to transform it internally without frightening conservative leaders into open revolt.

This policy has been under strain since the summer as conservative forces within the party realign. The old common front of the mid-1980s, between radical reformers and leaders who want a little modest house cleaning in the wake of the Brezhnev era, is breaking up, with the latter moving back towards the conservatives.

There is, in any case, always a greater consensus within the party on the necessity for economic reform than there is for political change. Mr Gorbachev therefore wants to hold a special party conference next June to change membership of the all important Central Committee to strengthen the ranks of political reformers.

The prospect of this move may have added steam and urgency to the conservative reaction. Throughout the spring and summer, Yegor Ligachev, Mr Gorbachev's number two, swung to the right attacking the excesses of *perestroika*. The seven weeks in August and September which Mr Gorbachev spent writing a book created a vacuum in Moscow, which was filled by the conservatives.

But it was Mr Yeltsin's ferocious attack on the party establishment, which Mr Gorbachev now says the Moscow leader had promised to postpone, that undermined Mr Gorbachev's tactic of avoiding outright confrontation between radicals and conservatives.

When the Moscow party committee met on November 11, Mr Yeltsin was not only dismissed but became the object of an extraordinary display of hatred by middle-ranking party and state officials. Again and again, men whose cosy bureaucratic world was threatened by the *perestroika* restructuring programme accused him of being a would-be Bonaparte consumed by ambition, using terms seldom heard since Stalin's show trials of the 1930s.

For instance, Mr Kozryev-dal, chairman of the Moscow agro-industrial committee, said Mr Yeltsin's speech to the Central Committee was "far from being a mistake, but a calculated and well timed stab in the back for the party Central Committee and its Politburo."

Giving a remarkable glimpse of the detestation which had grown up between Mr Yeltsin and the city administration, a district party official claimed: "Even police inspectors were given the right to shadow us. They were told: see if those sons of bitches are getting up to anything."

The surprise is not only that these speeches were made but that they were published in the Communist Party daily newspaper Pravda, presumably in a bid to discredit Mr Yeltsin. In fact, the lynch-mob atmosphere of the November 11 meeting created a wave of public sympathy for Mr Yeltsin. Students at Moscow University held a rally, informal clubs collected signatures in favour of the Moscow leader and there were reports of short strikes in Moscow and Mr Yeltsin's home city of Sverdlovsk.

> 'The problem is that there is no tradition of political crisis management in the party leadership'

One target of public hostility was Professor Protapopov of the economics faculty of Moscow University who had criticised Mr Yeltsin. When he went to deliver his next university lecture he found his audience numbered about 150, well above the normal figure of 30, but as he started to speak they all rose to their feet and walked out.

Such incidents should not surprise Mr Gorbachev and other leaders since they have repeatedly said they favour more democracy. It is ironic, however, that the first time that the Politburo's call for more public involvement in Soviet politics is answered, it is on an issue - a split in the leadership - which is the last topic Mr Gorbachev and the Politburo want to see debated.

As it was, the news of Mr Yeltsin's offer to resign leaked first to the foreign press and was confirmed by senior Soviet officials. But not a word was allowed to appear in the Soviet media until much later. To find out about a crisis in the leadership of their own city, Muscovites had to listen to foreign radios just as they had under Mr Brezhnev.

The authorities clearly recognise that *glasnost* (openness) and greater freedom of expression mean that Soviet politics can no longer be confined to the high bureaucracy. If the publication of details of the Moscow party meeting which sacked Mr Yeltsin was an effort to discredit him, then it backfired.

A more successful official effort to calm the political mood was Mr Yeltsin's sudden appointment on November 18, in contrast to his complete disgrace of a week before, to be first deputy chairman of the State Construction Committee.

"The leadership underestimated the reaction of the party apparatus against Yeltsin and of the people against the apparatus," says one Soviet political commentator. "The problem is there is no tradition of political crisis management in the party leadership."

Most senior Soviet officials have risen to their present positions in a bureaucratic hierarchy organised on semi-military lines, in which all commands come from the top down. Few have political skills in the sense of an ability to persuade large numbers of people to act in a particular direction.

A similar lack of experience of public criticism and debate explains the extreme sensitivity of party officials to Mr Yeltsin's populist style. One Moscow official pointed an accusatory finger at his former leader and said: "You wallow in struggle, pressure and aggression all the time. You are constantly exposing someone so you can parade on your charger in front of ordinary people."

These accusations are important because they are typical of feelings of many middle-ranking Soviet officials affected by *perestroika*. Furthermore, few of them will have missed the fact that the most common complaint made against Mr Yeltsin was of publicly criticising or firing officials, and this charge could be equally made against Mr Gorbachev.

There is no question that the fall of Mr Yeltsin is a blow to Mr Gorbachev's political prestige. His failure to support a man so closely identified with reform in the face of bureaucratic attack, whether justified or not, is seen as a sign of weakness.

At a time when nobody quite knows the new rules of Soviet politics - political fluidity is probably greater now than at any time since the 1920s - these perceptions are important. But the promotion of Lev Zaikov, a close ally of Mr Gorbachev, to take Mr Yeltsin's place in Moscow shows that there has been no major shift yet in the balance of power in the Politburo in favour of conservatives.

But has Mr Gorbachev become more conservative? In the edgy political atmosphere of Moscow after the Yeltsin affair, some supporters of reform fear he is reverting to the mould of past Soviet leaders. Political jokes, the stock-in-trade of Moscow cynicism but which had been out of fashion in the past year, are popular again.

A recent one, referring to the Soviet habit of naming places after deceased leaders, catches the political mood: a man goes to the railway station to buy tickets for the cities of Brezhnev, Andropov, Chernenko and Gorbachev. The ticket seller, after giving him the first three tickets, looks surprised and says: "But there is no city of Gorbachev." "Not yet," replies the other. "But I would still like to make an advance booking."

Such cynicism may be as facile as the official line that the Yeltsin affair was an accident which will have no lasting impact. Conservatives within the party would find it difficult to get rid of Mr Gorbachev and they are weakened by the lack of alternative policies to the reforms.

Mr Gorbachev's attitude is that the only way to remove the deadweight of 18m Soviet officials and administrators (out of a total population of 283m) is to end the day-to-day administration of the economy from above. This will automatically limit both their authority and their numbers.

This sounds good as grand strategy, but does not explain why Mr Gorbachev played such a prominent role in getting rid of Mr Yeltsin. When Mr Gorbachev returns from Washington, supporters of *perestroika* will look for some gesture to show that reform has suffered a short-term setback rather than a serious defeat.

The Yeltsin affair is probably only the first of a series of political crises likely to punctuate the process of reform, as conservative and radical currents come into conflict. Mr Gorbachev clearly believed that he had to maintain party unity, even at the cost of the political head of a man close to him.

He can do this once and get away with it, but a repeat performance would probably destroy the credibility of his reform programme and at the same time cast a cloud over what he can achieve in external policy.

Men and Matters

Tribble's banks restored

The British venerate nothing so much as longevity.

Thus there was sadness in many a breast when, as a result of the 1979 Banking Act, both the Salvation Army bank (called the Reliance Bank and founded in 1892) and the Manchester Exchange and Investment Bank (founded in 1876) lost the right to call themselves banks.

They were just too small, the bureaucrats decided.

But the two institutions shared a common asset - Norman Tribble, aged 60, who is now chairman of the Manchester Exchange and Investment Bank, and is also the statutory investment adviser to the Salvation Army.

Tribble was determined that both banks should regain the use of the word in their names. He saw the chance to run an effective campaign last year when Parliament began considering the proposed legislation for what is now the 1987 Banking Act.

He joined forces with Conservative MP, Sir Eldon Griffiths, to lobby against the opposition of certain of the big banks, who made no secret of their preference for a banks' club restricted to big boys only.

The pair took the rather grandly titled Chancellor of the Exchequer of the Salvation Army, Commissioner Peter Hawkins (in fact he is the finance director) to the House of Commons.

To their combined delight, the lobbyists quickly found support in the Treasury and among MPs for their immediate cause, for the concept of small banks in general, and for the Salvation Army.

The happy ending has been what is quaintly called a great-grandfather clause inserted in the new Banking Act - so called because it changes not the last Banking Act but the one before that.

This week the Manchester Exchange and Investment Bank is in business again having gratefully shed its interim name, Manchester Exchange Trust. And shortly the Salvation Army's Reliance Bank will reappear in place of Reliance Trust.

Men of steel

The newly-knighted Sir Robert Scholey, chairman of British Steel, invited a posse of industrial writers to join him over breakfast yesterday morning at his slimmed-down headquarters on the south bank of the Thames (in the grand old days British Steel was in Grosvenor Place, and the Queen's nearest neighbour).

It soon became evident to the journalists that Scholey's economies - which have put the corporation firmly back into the black - extend to breakfasts.

Hopes of a traditional English spread of eggs, bacon, sausage, black pudding, mushrooms, and toast and marmalade, faded rapidly. They were served instead kedgeree, a dish of fish, eggs, and rice which has its adherents - although they are few and far between.

Scholey was in no mood to accept complaints. After all, he pointed out, he had been up for hours and had already eaten his breakfast.

Legal moves

Thirty five years on, members and officials of the European Court of Justice will be indulging in an uncharacteristic bout of nostalgia today as they celebrate the anniversary of the swearing-in of the members of the Court of Justice of the European coal and steel community, the precursor of the present institution.

That event took place in the marriage room of Luxembourg's Town Hall. It was not until 1973 on the accession to the community of three new member states, Denmark, Ireland, and Britain, that the court obtained its own premises.

However, the growing volume of cases and further additions to the family (Greece in 1981, then Spain and Portugal in 1986) have once again led to the dispersal of the institution to three different sites.

The astonishingly rapid construction recently of an annexe to the court building (famous for its rusty steel exterior) which will be opened in September, 1988, was expected to put an end to the court's need to share with relatives. But the court is expecting another addition to the family in the form of a court of first instance, intended to relieve the court of justice of part of its burden of cases.

Plans are already in hand, therefore, to extend the annexe to welcome the new arrival.

Set in motion

Granada Television has a reputation for being penny-pinching: never throwing away anything that might come in handy one day.

On Sunday it is going to use one of its old sets yet again - the reconstruction of the House of Commons from the dramatisation of Jeffrey Archer's First Among Equals.

Granada Television chairman, David Plowright, took great delight in shipping the House to Manchester where he clearly thinks it belongs.

Now Granada's World In Action will record an unscripted debate on the floor of "the House" on whether or not the television cameras should be allowed into the real Commons.

There will be 16 MPs to debate the issue, and 200 extras to make realistic parliamentary noises and to vote.

The debate will be shown in the new year just before the real debate on the issue.

Mrs Thatcher will not be attending the northern parliament on Sunday. But then she has been making no secret of her opposition to letting television cameras through the Commons doors.

Late call

Nigel Lawson, Chancellor of the Exchequer, found himself in a bit of a pickle yesterday.

He was due to go on BBC radio at 1 pm to trumpet the virtues of co-ordinated interest rate cuts. But the problem was that the West Germans had not announced their intention to cut their rates. The uncertainty was compounded by a break down of the Reuters information screens.

An embarrassed Lawson was told by his advisers to delay his appearance. He appeared on cue just over four hours later on the BBC's *PM* programme.

While on matters Lawson, I am told that the Bank of England recently received a letter from one, N Lawson of 11 Downing Street, seeking to cash in his partly-paid BP shares for 70p. The letter did not include any proof of ownership and a call to No. 11 confirmed the Bank's amused suspicion that it was a bogus application.

High price

The tallest free-standing structure in the world, Toronto's hideous 553-metre CN Tower, is for sale.

The tower, which supports the antennae of 15 television and radio stations, has been put on the block as part of a government plan to sell all of state-controlled Canadian National Railways' non-rail assets. The proceeds will be used to reduce the company's C$3.4bn (£1.42bn) debt.

While the construction itself, completed at a cost of C$57m 11 years ago, made a C$5m operating profit in 1986, it is part of the CN Hotels unit which lost C$7.4m in the first quarter of this year.

Post haste

One organisation has apparently decided not to take any chances with the possible disruptions of a postal strike. A colleague yesterday received an early Christmas card from the Post Office's public relations department.

Observer

POLITICS TODAY: Malcolm Rutherford

From left, presidents Ibrahim Babangida of Nigeria, P. W. Botha of South Africa and Kenneth Kaunda of Zambia

Out of Africa: a chance not to be missed

ON January 5 1960, Mr Harold Macmillan, the British Prime Minister, set out on a six-week visit to Africa that was to culminate in his famous "wind of change" speech to the Parliament in Cape Town.

"The wind of change," he said, "is blowing through this continent, and whether we like it or not this growth of national consciousness is a political fact. We must all accept it as a fact and our national policies must take account of it."

He joked on the ship on the way back that whereas the press seemed to regard it as an act of international statesmanship, all he had wanted to do was to get away from the winter in London.

Two points about that episode, apart from the Cape Town speech, are worth noting. One is that a British Prime Minister was prepared to leave the country for more than a month to see at first hand what was happening abroad. It is difficult to imagine that happening again. The second is that he came back by sea, so that there was time to think.

Those were, at least in retrospect, halcyon days. The post-war settlement was still firmly in place. It seemed only a matter of moving on from granting independence to India to granting independence to British Africa. Consciousness of Britain's relative economic decline had not then set in; and - with hindsight - Macmillan has been occasionally condemned for devoting too much time to foreign affairs, while ignoring local difficulties at home.

Yet is hard to see how it could have been otherwise. Foreign affairs were important then: there was the Cuban missile crisis, the cancellation of the Skybolt missile, the recurrent problems with Berlin, let alone the future of Africa and other legacies of empire. No Prime Minister could easily have opted out.

It is the same today, only more so. There are lots of local difficulties, like the poll tax and the troubles within the Tories' own ranks on such matters as the Education Bill and the proposed changes in the national health service. But foreign affairs dominate and must do so. The only surprise is that Parliament has not yet caught on.

It is not only the obvious summit meetings all over the place: the heads of government of the European Community in Copenhagen today and tomorrow, Mr Mikhail Gorbachev in Washington next week and the elusive, yet to be arranged gathering of the finance ministers of the Group of Seven to try to restore some stability to the world's currency markets. Those are big enough in themselves and may even be taken as a sign that governments are not unaware of global problems. It is the attempt to put them all together, to try to see the world as a whole, that is missing.

For there are other problems, just as pressing and perhaps potentially more explosive, about which no summit meetings are planned yet, which could erupt at any moment. One is the Iran-Iraq war where the Iranians may be about to mount a major offensive. Another is southern Africa.

First, however, a general point. International structures for dealing with regional crises do exist. Indeed it may even be argued that the United Nations Organisation looks even better today than when it was first founded after the Second World War, because it is the only forum capable of bringing everyone together. The Soviet Union has begun to take it seriously and has paid its financial arrears. China has returned to the international community and has ceased to preach revolution around the world.

The trouble is that we have grown used to disregarding the UN for so long that nobody knows what to do with it when the pieces fall into place. There was an almost unprecedented resolution of the Security Council on the Iran-Iraq war in the summer, in which the Russians and the Chinese joined the Americans, the British and the French in calling for the war to stop: otherwise there would be an arms embargo. It has not been followed up with the intensity that it might have been.

We have also grown used to regional crises never being quite as cataclysmic as sometimes feared. The Arab-Israeli conflict, for instance, nowadays tends to be referred to as a relatively minor affair: nothing like as dangerous as the Gulf War. And, it is true, there was a partial settlement or at least defusing of the issue. Israel and Egypt made peace of a kind. But it would be rash to assume that the conflict has gone away.

It is equally rash to think that all conflicts and potential conflicts can be dealt with by the series of *ad hoc* measures that now take the place of international diplomacy. For instance, although western European governments have officially welcomed the arms control agreement between the US and the Soviet Union (they did not, in practice, have much choice), what they are really wondering about is what is going to happen next. It is a new world in which the US appears relatively weak and the Soviet Union has an appealing leader.

Is anyone standing back to think of better ways to produce international stability?

It could change again very quickly, just as the detente of the early 1970s gave way to renewed Soviet-American competition and a feeling that the Soviet Union did not matter very much, save militarily.

My question is: how far is anyone trying to stand back to think about better ways of producing international stability rather than just dealing, not always satisfactorily, with immediate crises?

Take Southern Africa as an illustration. Almost everybody says, indeed has said for almost as long as one can remember, that one day South Africa will erupt. Nobody knows quite how, nor what the consequences will be. The only consensus is that the day inevitably gets nearer. At present, it is probably not regarded as one of the most dangerous conflicts in the world.

The Commonwealth heads of government discussed the subject in Vancouver in October and ended in disarray over economic sanctions: or rather with Britain on one side, opposing further sanctions, and the rest of the Commonwealth on the other.

But that was not quite the whole story. There were many matters on which the entire Commonwealth did agree and, as a reading of Mrs Margaret Thatcher's statement to the House of Commons on October 22 makes clear, the British Prime Minister was not posing as a friend of President P. W. Botha or an ally of apartheid: far from it. As often happens, much of the meaning was lost in the rowdy and partisan atmosphere of the Commons.

What is going on now is an attempt by the Commonwealth to pick up the pieces and to bring Mrs Thatcher back on board. The division over sanctions is genuine and deep. She believes, as she told the Commons: "Sanctions only harden attitudes, as the recent elections in South Africa have shown. Moreover, so far as they do have an effect, the first to suffer are the black people of South Africa whose *jobs and livelihoods* would be put at risk, without any social security to fall back on. They would also be very damaging to the front line states who have themselves come to understand more fully the difficulty of applying sanctions."

That is not a view that will be lightly given up; nor, it should be said, is it one that is entirely easy to refute. Yet the British Government agrees that aid to the front line states should be increased and that the pressure on South Africa to change must be kept up. She was forthright in her condemnation of apartheid: "totally and utterly repugnant and detestable." She also said: "We wholeheartedly condemn any excursions by South Africa into other states and we have tried to help defend those states against the incursions."

Asked if she would go to South Africa and say what she thought, she replied: "I do not think that it would be productive for me to at the moment. If the time comes when I think that a visit would help dismantle apartheid, I shall go."

One idea put forward by a senior African diplomat is that she should do a Macmillan in reverse: that is, go to Africa in January, start rather than end in Cape Town, make a powerful speech to the South African Parliament denouncing apartheid and, as perhaps the only western leader to whom white South Africa is prepared to listen, appeal for peaceful change. She would then find doors open to her all over Africa.

It is not going to happen like that. Mrs Thatcher is going to Africa at the beginning of next month - so far only to Kenya and Nigeria, though there is an open invitation to her to visit Mozambique, one of the front line states. It will be, incidentally, her first trip to the continent since the Commonwealth conference in Lusaka in 1979, which led ultimately to the independence of Zimbabwe.

Nigeria is the place that matters. President Ibrahim Babangida did not go to Vancouver, but as the leader of black Africa's most powerful state and one which seems to be overcoming its economic difficulties (with some British assistance), he wants to meet Mrs Thatcher.

One should never underestimate such occasions. For instance, if she had never met Mr Gorbachev, she might have a rather different view of his leadership than she has today. It is just possible that President Babangida will establish a similar rapport.

If so, it could help to bring Britain and the rest of the Commonwealth together again on South Africa. For the Commonwealth knows that without Britain the chances of achieving peaceful change are minimal.

The heads of government also know that without Mrs Thatcher there is no possibility of approaching President Botha. It was she, after all, who made possible the mission of the Eminent Persons Group to South Africa and the surrounding states in 1985, and she says that that she still stands by its conclusions that there must be a negotiated settlement involving a transfer of power.

The Commonwealth, of course, would have to make some concessions as well. There will be no British rush into sanctions, but at least there could again be a co-ordinated approach.

As it happens, the Commonwealth committee of the foreign ministers of Canada, Australia, Guyana, India, Nigeria, Tanzania, Zambia and Zimbabwe, set up in Vancouver to monitor developments, is due to hold its first meeting in Lusaka at the beginning of February. Britain declined to be a member, but should not overlook its existence.

The South African problem may seem dormant compared to, say, the Gulf, but that is precisely the time when preparations can be made to avert disaster. One day it will be too late.

An open letter from Milton Friedman to Margaret Thatcher

Dear Mrs. Thatcher:

THE news media report that you have advised the President and the Congress that a major reduction in the federal government's budget deficit is essential to stabilise the world economy and that the reduction should be achieved, at least in part, by imposing higher indirect taxes on a wide range of consumer goods.

As one of your long-time admirers and supporters, I respectfully beg to differ. I believe that higher taxes of any kind, direct or indirect, are bad economics and even worse politics. Tax increases will harm, not benefit, the world economy.

As to economics, the real tax on the American people is what government spends, not the part of spending financed by what are called taxes. The deficit is also a tax - a hidden tax that can be enacted without anyone having to vote for it. The deficit has not been produced by a decline in tax revenues - tax revenues have stayed a relatively constant fraction of national income. The deficit has been produced by an increase in federal spending as a fraction of national income. Spending has now peaked. At long last, it has started to decline as a fraction of income. And the budget deficit has been coming down drastically - from $230bn in the second quarter of 1986 to $171bn in the second quarter of 1987. The stock market rose both when the deficit was rising and when it was falling. How, then, can the recent crash plausibly be attributed to an excessive deficit?

More important, higher taxes will not reduce the deficit, except for a brief interval. They will simply increase government spending. That is the lesson taught by past experiences. It is also the underlying reason why Congress is exerting pressure for higher taxes. The desire of members of Congress to spend has been restrained by the existence of a large deficit. Higher taxes will permit higher spending without a higher government deficit. Higher spending means that government will command a larger fraction of the nation's resources; private individuals a smaller fraction. That is not a result I would expect you to favour.

As to politics, the US public, like the British public, is fed up with high taxes and high government spending.

The Democrats know that it is politically unpopular to raise taxes. Yet they want higher taxes in order to be able to vote for higher spending. They know that the only way they can get higher taxes is by getting President Reagan's support. His opposition has so far been steadfast and has prevented higher taxes. Indeed, his major domestic achievement has been the reduction in the top marginal rate on personal incomes from 70 per cent to 33 per cent. A retreat by him now - unless in return for constitutional amendments providing a line-item veto and requiring a balanced budget - would be a major setback to the cause that both you and he have fought for so valiantly: cutting back the size of government.

As to the world economy, one of your major achievements on becoming Prime Minister was to end foreign exchange control and to set the pound free. That was the right course of action then and it is the right course of action now, not alone for Britain but for other major countries as well.

The instability in foreign exchange markets is the direct result of central bank intervention, which by preventing small and gradual adjustments allowed minor strains to accumulate and to threaten a major readjustment. That was the experience under Bretton Woods; it has continued to be the experience under the European Monetary System version of Bretton Woods; and is now under the Louvre version.

Let me urge you to consider whether the advice you have given is truly consistent with your strong and principled support of voluntary co-operation of free people in free markets, with a minimum of government intervention.

Sincerely yours, Milton Friedman

Professor Friedman is senior fellow at the Hoover Institution, Palo Alto

Letters to the Editor

People move, buildings do not

From Sir Philip Goodhart MP.

Sir, I was startled to read the assertion by Michael Howard (November 16), the Minister of State at the Department of the Environment, that "A property tax, whatever its general merits, is a poor basis for a local charge." The great advantage of a property tax as a basis for local government finance is the fact that buildings do not move - while people do.

In this country more people are on the move, and a growing number have roots in two communities. The problems of keeping track of a mobile population have been well documented by the Rating and Valuation Association, the Association of District Council Treasurers, and other professional bodies which deal with local government taxation.

In the past, councils knew that they could count upon receiving nearly 99 per cent of the estimated rates revenue. The collection rate for the community charge will inevitably be much lower. This means that many councils will have to add 5 or 10 per cent to the community charge estimates that have been put out by the Department of the Environment following the decision to introduce the community charge without phasing.

Philip Goodhart,
House of Commons, SW1

The objective is accountability

From Mr Irvine Patnick MP.

Sir, I was sorry to see that your editorial on rates reform (November 18) displayed muddled thinking about both the Government's proposals and the CBI's. Let me set out the weaknesses in your argument.

First, the current rates reform package was proposed in a Green Paper *nearly two years ago* and set out in detail in the Conservative Party Manifesto. It is not ill thought out or being rushed through, as you suggest.

Second, it is not true that the Government will stop local councils from being accountable to their business ratepayers. They are not accountable at the moment because they have no vote, and it simply is not practical to give them one.

Take the example of Camden. Its *own rate* income this year is £128m, of which no less than £102m comes from the business ratepayer. As long as councils can soak businesses in this way, there will be no accountability whatever in local government. The Government's proposals will put an end to this behaviour and ensure that local councils will be fully accountable to their voters for the first time.

Third, it simply isn't right to say that the new system will be unfair. *It is fair* that everyone should pay a contribution towards the cost of local services. The poor will be protected by a system of rebates, which will diminish as income rises. The rich will continue to pay much more in total because of their income tax contributions to Government grants. Indeed, the top 10 per cent will pay 16 times as much as the bottom 10 per cent.

Fourth, the new system *will* help the inner cities. The north and the Midlands will benefit by £700m from the combined effect of revaluation and the Uniform Business Rate. In contrast, the CBI's proposals would benefit the south east more than the north. Indeed, the rate poundage for job-hungry Derwentside (Consett) would actually go *up* by 49p, compared with a 35p reduction under the Government's proposals. And equally bizarre results flow from the system they propose for a "household" community charge. In Liverpool the household bill would be £164, whereas in Sheffield it would be £648.

At the time of the publication of the Green Paper the CBI set out five pre-conditions for supporting the concept of a uniform business rate. All but one of them has been met. The one point outstanding is a demand for a reduction in the overall burden of business rates. Of course everyone would like to pay less - but that means others paying more. However, the new system will give businesses the statutory guarantee that the CBI has long called for - that future rate increases will be by no more than the rate of inflation.

So it is perfectly clear that the CBI's proposals are impractical and do not achieve the key objective of proper accountability. The only way forward is that proposed by the Government, and this is becoming increasingly clear with every day that passes.

Irvine Patnick,
House of Commons, SW1

The Gulf between custom and practice

From Mr Afshin Mobasser.

Sir, It has become a common practice for British officials and media to refer to the Persian Gulf simply as "the Gulf".

Arab countries have tried to change the name to Arabian Gulf, despite every historical evidence and documents dating back several centuries - including old maps charted by the British Admiralty. The name "Persian Gulf" was given to the area because ancient Persia was the home of the only flourishing civilization in that region centuries before the birth of both Christianity and Islam. It was thus natural for the waterway to take the name of that ancient civilisation.

British insistence on calling the waterway "the Gulf" is not because of ignorance or lack of information - they can refer to any credible document, including the Encyclopaedia Britannica, and even to their own various original Admiralty maps. Thus it seems evident that the British are only trying to make the Arabs happy. Incentive permitting, they have even at times been happy to refer to it as "the Arabian Gulf."

Using the term "the Gulf" instead of "the Persian Gulf" is as ridiculous as it would be to change the name of the Indian Ocean to "the Ocean" or "the Pakistani Ocean" in order to befriend the Pakistanis - or to say "the Gulf" instead of "the Gulf of Mexico" to make the Texans happy.

Afshin Mobasser,
PO Box 326,
London, SW15

Shareholders in the Guinness affair

From Mr C.J. van der Lande.

Sir, Not only should the current Guinness management feel less than pleased about accepting liability for their predecessors' errors, but as a shareholder who purchased Guinness shares after the takeover, but before the irregularities came to light, I would feel even more aggrieved if the Takeover Panel acted in a way which was against my interests.

You state that the Takeover Panel should ensure that all shareholders should receive equal treatment in a takeover. If, as a result of a breach of the Companies Act, Guinness is forced to pay the £100m to Distillers' shareholders, certainly all existing shareholders will receive equal treatment, but many of those paying will not be the original beneficiaries. They will be those who bought the share in good faith after the takeover, and have watched them plummet since the problems came to light. This would not be equitable.

Surely the correct procedure is to identify those officers in the company responsible for any breach of the law and to proceed against them, rather than levy an effective fine on thousands of shareholders who were either totally unaware of a breach of the law or, as in my case, totally uninvolved at the time.

C.J. van der Lande,
Folly Farm,
South Holmwood,
Dorking, Surrey

The shipowner is not necessarily the shipper

From the Director of the British Shippers' Council.

Sir, The complaint to the EC Commission under the maritime unfair pricing regulation, made by the shipowners' cartel serving the Australian trades, is quite fascinating, and the article by William Dawkins (November 16) gave an interesting insight into the concept of unfair pricing from the point of view of a cartel.

Some confusion could have been caused in the article, however, by describing the shipowners as shippers. In trade terms the shipper is the owner or consignor of the goods carried in the shipowner's vessel. The shippers' *interests* are, therefore, quite different from those of the complainants.

For instance, the Australian cartel has a 75 per cent share of the UK market, and from this strong position has, over a long period of time, enjoyed annual rates increases above the level of inflation and cost increases. This, in the view of the shipper who is paying these high prices, has created a situation that was ripe for aggressive competition.

The European Shippers' Councils and the British Shippers' Council, representing exporting industries in Europe, have countered the cartel's complaints. They have pointed out to the EC Commission that to secure 10 per cent of the market, Hyundai would have to fill the total capacity of its fleet, and even then the cartel would remain in a very dominant position.

Shippers also claim that the rates differential simply takes account of the poorer, slower service offered by Hyundai and other independent lines which, additionally, are not equipped to provide efficient inland haulage at both ends of the trade.

There is also evidence that in spite of a depressed Australian economy, certain British exporters have been able to increase their business significantly on the basis of the cheaper rates offered. There is, therefore, concern that the consequences of imposing a redressive duty on Hyundai could seriously affect the trading opportunities of many exporters.

On another issue it is not quite accurate to say that in exchange for the unfair pricing rules, liner conferences had to give up their route share and price fixing accords. In fact they have been given exemption from the EC competition rules, and the most likely development is that individual cartels will merge into larger units.

Jack Welsh,
British Shippers' Council,
Hermes House,
St John's Road,
Tunbridge Wells, Kent

FINANCIAL TIMES

Friday December 4 1987

Carla Rapoport in Tokyo on Japan's growing appetite for foreign goods

West pays high price of prestige

JAPAN is finally exporting less and importing more, according to official figures. But a quick look around Tokyo's glitzy Ginza shopping district shows that European and US goods are just as expensive and hard to find as ever.

The fast-growing economies of south-east Asia are the ones which - in the shops - are benefiting most from Japan's growing appetite for foreign goods. While Scotch whisky languishes on the shelf at $30 a bottle, South Korean cassette players, Taiwanese televisions and fur coats made in Hong Kong are selling at an unprecedented rate.

Imports from Taiwan, South Korea and Hong Kong soared by more than 70 per cent in the nine months to September - more than five times the overall rate of import growth.

The trend is doing wonders for Japan's relations with its Asian neighbours. Most south-east Asians have long harboured grudges against Japan for its acts of aggression during the Second World War and its economic aggressiveness since.

But neither the Koreans nor the Taiwanese have been banging on Japan's front door in recent years. Instead, it has been the West, led by Washington.

Now that the yen has climbed by nearly 45 per cent against the US dollar, Washington believes its goods should be more plentiful in Japanese shops and at lower prices. This has not happened. So, in true Japanese fashion the Government is now officially putting pressure on retailers to do better.

A few days ago, Mr Hajime Tamura, Japan's Minister of International Trade and Industry, harangued retailers at a special news conference, asking them for an "early implementation of measures to pass on more exchange rate profits to the Japanese consumers."

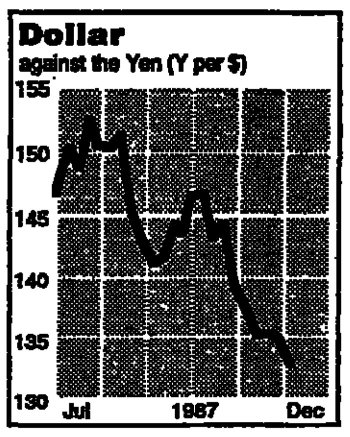
In short, Japanese retailers have refused to cut prices on European and US goods because they are too busy enjoying the increased profits.

Mr Masatoshi Ito, managing director of the Japanese Chain Store Association and head of Ito-Yokado, one of Japan's largest store groups, argues that when retailers cut prices, the handling charges on imports do not go down, nor does their volume necessarily go up. "So, if prices go down, our benefits are reduced," Mr Ito says.

Even so, the Ministry of International Trade and Industry (Miti) is still hammering away. Mr Tamura has given the country's leading retailers until February to work out plans for the promotion of imports.

This is the third time this year that the ministry has demanded such plans. Miti is organising seminars for small companies on how to increase imports and has even produced a half-hour television show which has been aired nation-wide.

Miti officials are not too optimistic about achieving quick results. "American companies don't really want to sell to Japan, I think," says Miss Midori Tani, deputy director general of Miti's price policy division. "Americans may like big products, but the Japanese do not because their houses are much smaller. So we have asked the department stores to go to America and other countries to order what they need."



As for European products, Miss Tani explains that the high price on products from Europe is part of the marketing strategy of those goods. "Japanese retailers fear that a lower price would hurt the product's prestige," Miss Tani says.

Foreigners have long claimed that the real barrier to increased imports in Japan is the complicated, inefficent distribution network. Japan has the highest ratio of wholesalers to retailers in the world. It also has the same number of wholesalers as the US, with half the population and only 10 per cent fewer retailers.

Yet the distribution system has not stood in the way of the growing volume of Asian imports; but nearly all the goods are low-priced. Among the few product areas where Europe and the US are showing significant gains are metal-press machines from West Germany, antiques from France and film developers from the US.

Japan's import trend is now firmly upward. Europe is gaining more ground than the US, thanks to brisk imports of office machines and cars. European imports to Japan jumped by nearly 30 per cent in the nine months to September, while the US figures stayed the same in dollar terms.

In high-volume, lower-priced goods, however, the prospects do not look good. European companies can make more money by licensing designs and making the goods in Japan, according to Mr Ito. To the Japanese retailer, the best of all worlds is a garment designed in Italy and made in Thailand or China.

"We know we are supposed to import more," Mr Ito says, "but it is not necessarily good for us." Until it is, Japan's import profile is likely to remain a sore spot with the West - and that could be the case for some time to come.

Plea for summit flexibility

BY QUENTIN PEEL IN COPENHAGEN

MR POUL Schlueter, the Danish Prime Minister, issued a last-minute appeal yesterday for flexibility from all the European Community member states if there is to be any hope of agreement on sweeping reforms at the EC summit, which opens today in Copenhagen.

Mr Schlueter's appeal appeared to be directed above all at Mrs Margaret Thatcher, the British Prime Minister, who has stressed her unwillingness to compromise on the key issue of Britain's EC budget rebate.

As the 12 national delegations engaged in a flurry of final talks on the eve of the two-day meeting, Mr Schlueter - the prime minister in the chair - warned that there was no certainty of a successful outcome.

"It is going to be a difficult meeting, very difficult," he said yesterday. "It is not absolutely automatic that we shall achieve a result, but it is very important."

He called for a spirit of give-and-take from all the EC leaders, appealing to them to abandon their national "ego interests."

Mr Schlueter said he was convinced that Mrs Thatcher shared this spirit of give-and-take, despite the recent letter which set out her absolute insistence on maintaining the full British budget rebate.

"Nobody can be a leader of a European nation without fully understanding the necessity that all of us jointly take steps to come out of the crisis," he said.

The reform package to be discussed at the Copenhagen summit covers a comprehensive package of spending controls on agriculture, with which West Germany disagrees strongly.

It contains a plan to double spending on social and regional planning which is opposed by Britain, France, the Netherlands and West Germany. It also provides for an increase in national payments to the Brussels budget, on a new and more equitable basis, which causes big problems for Italy.

Crucial issues will be how to deal with the cereals and oilseed sectors. West Germany is fighting to limit the extent of price cuts proposed by the European Commission and insert a comparable programme of paying farmers to take land out of production. New proposals are expected from the Commission and Denmark during the summit.

Chancellor Helmut Kohl of West Germany was due to arrive last night with his Agriculture Minister, Mr Ignaz Kiechle - a move seen as politically essential if he is to agree to any deal.

Mrs Thatcher, who also arrived last night, held last-minute talks with Mr Ruud Lubbers, the Dutch Prime Minister and her strongest supporter on budget discipline. She was due to meet Chancellor Kohl for breakfast today.

However, both Mr Kohl and Mr Lubbers are strong opponents of the British budget rebate, which has to be reconfirmed or renegotiated in any deal to increase payments to the EC budget.

Many delegations argue that Mrs Thatcher cannot expect to hold to a rigid line on farm spending controls, on keeping social and regional spending to a modest increase, and on maintaining her budget rebate - and still get the necessary unanimous EC approval.

Danish officials believe that one small hopeful sign for a settlement is the indication from Paris that both President Francois Mitterrand and Prime Minister Jacques Chirac want a deal, rather than opting for the easy solution of isolating Mrs Thatcher by a vote of 11 to one.

Mr Schlueter said the Community must reach agreement on this issue if it is to play its part in international issues, including the nuclear disarmament talks taking place in next week's Washington summit

"The real problem around which everything revolves is the role we want Europe to play in the world in the years ahead," he said.

EC inquiry into Peugeot loan; car pollution accord, Page 3

Chirac to press for EC spending control

BY IAN DAVIDSON IN PARIS

THE FRENCH Government will be "intransigent" in pressing for control of European Community spending at the EC summit which opens today in Copenhagen, Mr Jacques Chirac, the Prime Minister, said yesterday.

Opening a confidence debate in the National Assembly, Mr Chirac said that France had little room for manoeuvre in the Copenhagen negotiations because of the weakness of its foreign trade balance.

He announced his determination to fight for the control of Community spending, which had cost France FFr17bn ($12.24bn) in 1981, nearly FFr50bn in 1987, and would cost more than FFr80bn in 1992, if Commission proposals were adopted.

"Any weakness in the negotiation would be damaging both to our interests and to those of Europe, which cannot be built except with a strong France," he said.

He told the National Assembly that he hoped for an "acceptable compromise" on the financing of the Community budget over the next five years.

But the Community faced choices on spending: it had to give top priority to the Common Agricultural Policy, in consequence rearrange its regional and social policies, and moderate its new initiatives.

On home issues, he announced a series of social policy initiatives, starting with a 10 per cent increase in the price of tobacco - the first in a series of annual increases designed to bring French tobacco prices up to European levels.

He said that the deficit on the pensions element of the social security system would total FFr20bn this year, and would increase by FFr10bn every year as a result of the ageing of the population and the introduction, under the previous Socialist Government, of retirement at 60.

He announced that the Government would introduce legislation to govern the finances of political parties; but did not say what form the legislation would take.

In recent weeks a consensus has emerged among the main political parties on the need for rules to govern campaign expenses; but his own neo-Gaullist party remains opposed to legal constraints on ordinary party finances.

The confidence debate, ostensibly staged to strengthen the Government's hand both at the Copenhagen Summit, and more generally in the remaining six months before the French presidential elections, was really intended to extort the formal allegiance of the followers of Mr Raymond Barre, Mr Chirac's chief rival in the forthcoming campaign.

Mr Barre himself was absent from the National Assembly, however, since he was visiting the new Tunisian President.

Goria fights for public sector pay policy

BY JOHN WYLES IN ROME

MR GIOVANNI GORIA, the Italian Prime Minister, last night fought a lonely battle to establish a public sector pay policy in the face of bitter attacks from trade union leaders.

In emergency talks with the three union confederations, Mr Goria pleaded for moves to end the deadlocked Alitalia pay dispute and to avert another round of crippling strike action on Sunday which would halt most of the Italian flag carrier's national and international services for the second time in a week.

However, the Prime Minister is insisting that the company's ground staff settle for a deal inside the Government's 5.5 per cent-a-year ceiling, which Mr Goria says must also include rises indexed to inflation. Alitalia has priced union demands at 25.1 per cent over the three-year life of the agreement while the unions' last negotiating figure was 13.5 per cent plus indexation.

Mr Goria's powers to sway the unions are damagingly weakened by evidence of disarray within his Government. Mr Rino Formica, the Minister of Labour, is non too reticently proclaiming that he was close to mediating an agreement worth about 10.8 per cent over three years, plus indexation, before Mr Goria blocked him last Friday. Basing its estimate on newspaper reports of the Formica plan, Alitalia says that wage costs would have increased by 36 per cent.

Mr Giuliano Amato, the Treasury Minister and senior Socialist in the Goria coalition who shares the Prime Minister's desire to avoid inflationary pay rises, has been pointedly silent on the issue.

Mr Goria's political weakness is only sightly more evident than that of the unions. They have failed to control their Alitalia membership and are clearly trailing behind rank-and-file militancy. Blustering demands for Mr Goria's resignation from some senior quarters have been disavowed by others, fearing accusations of political motivation behind union tactics.

Nevertheless, they can still recognise a lame adversary when they see

For his part, Mr Goria is trying to impart a straightforward economics lesson. Italy's huge public sector deficit does not allow for generous pay rises at Alitalia which other public employees will try to copy. "Neither devaluations nor inflation can solve Italy's problems," he said in a speech on Wednesday.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	16	61	Dubrovnik	S	13	55	Malta	S	19	66	Rhodes	[illegible]	19	61
Algiers	C	19	66	Edinburgh	F	8	46	Manchester	C	5	41	Rio de J'o	S	[illegible]	[illegible]
Amsterdam	S	3	37	Faro	R	16	61	Manila	S	30	86	Rome	F	13	55
Athens	F	15	59	Florence	S	12	54	Melbourne	F	15	59	Salzburg	S	4	39
Bahrain	S	22	72	Frankfurt	F	3	37	Mexico City	S	24	75	San Francisco	R	18	64
Bangkok	C	30	86	Funchal	F	19	66	Miami	C	21	70	Seoul	S	-1	30
Barcelona	D	14	57	Geneva	F	4	39	Milan	C	6	43	Singapore	F	28	82
Beirut	S	20	68	Gibraltar	F	18	64	Montreal	C	0	32	Stockholm	S	1	34
Belfast	C	6	43	Glasgow	C	6	43	Moscow	C	0	32	Strasbourg	C	3	37
Belgrade	C	3	37	Guernsey	C	5	41	Munich	C	1	34	Sydney	F	22	72
Berlin	C	1	34	Helsinki	C	1	34	Nairobi	F	23	73	Taipei	R	17	63
Biarritz	F	8	46	H. Kong	S	17	63	Naples	S	15	59	Tangier	-	-	-
Bombay	S	31	88	Innsbruck	S	2	36	Nassau	C	25	77	Tel Aviv	C	24	75
Bordeaux	F	13	55	Inverness	Fg	-3	27	New Delhi	S	29	85	Tenerife	S	23	73
Brussels	S	2	36	Islamabad	F	18	64	New York	S	7	45	Tokyo	S	19	66
Budapest	C	5	41	Istanbul	F	7	45	Nice	F	14	57	Toronto	C	1	34
B. Aires	C	28	83	Jakarta	R	33	91	Nicosia	F	11	52	Tunis	F	19	66
Cairo	F	22	72	Jersey	C	4	39	Oporto	C	13	55	Valencia	R	13	55
Cape Town	S	25	77	Jo'burg	C	27	81	Oslo	F	-3	34	Venice	[illegible]	7	45
Caracas	C	27	81	Lima	S	25	77	Paris	F	3	37	Vienna	[illegible]	2	36
Casablanca	R	15	59	Lisbon	R	10	50	Peking	S	3	37	Warsaw	C	2	36
Chicago	C	0	32	London	C	4	39	Prague	C	-1	30	Washington	-	-	-
Cologne	S	5	41	Los Angeles	C	20	68	Reykjavik	F	3	37	Zurich	C	1	34
Copenhagen	C	1	34	Luxembourg	C	0	32								
Corfu	S	17	63	Madrid	R	9	48								
Dallas	-	-	-	Majorca	F	17	63								
Dublin	C	6	43	Malaga	C	15	59								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Interest rate cuts

Continued from Page 1

rate, which was lowered to 4.5 per cent in early November, is not being changed. However, financial analysts will now be waiting to see how the Bundesbank acts at the next set of securities repurchase agreements due on December 9.

The French monetary authorities said co-ordination yesterday by the Bundesbank and the Banque de France reflected the "very tight dialogue" between French and German policies within the framework of the European Monetary System.

The Banque de France did not fully match the West German cut yesterday, reducing its money market intervention rate and its seven-day repurchase rate by only 0.25 points. This widened the interest rate differential between the French franc and the D-Mark, giving the French currency added protection within the EMS.

The French authorities have been anxious to prevent the franc dropping to its floor against the D-Mark in the EMS and forcing a realignment before next spring's French presidential elections.

Nasser's son 'linked to terrorist group'

By Tony Walker in Cairo

A CASE that for weeks has been shaking Egypt's political establishment to its foundations has now surfaced for the first time in the official press.

The government-owned weekly magazine al-Mussawar, published yesterday, has broken official silence on possible links between a son of the late President Gamal Abdel Nasser and a terrorist group responsible for the slaying of several Israelis in Cairo and an attack on US diplomats.

Mr Makram Mohammed Ahmed, editor of the magazine, did not mention by name, Khaled Nasser, a businessman, in his article but his reference to "one of Nasser's sons" was unambiguous.

Mr Ahmed called for Mr Nasser's arrest for questioning in connection with the activities of the terrorist group.

He said charges would be laid within days against members of the group who were in detention. These include a former military intelligence officer with whom Mr Nasser is said to have had some dealings.

"The tragedy in the case is that all the accused are Egyptians and accusations point to one of Nasser's sons who had a role the least of which could be complicity, if not accessory after the fact," Mr Ahmed wrote.

Cairo has been awash with rumours about Mr Khaled Nasser's links with a left-wing group known as "Egypt's revolution."

The Government, however, had placed an official ban on reporting of the case because of its political sensitivity.

But now that an official publication has mentioned the case, it means the way has been cleared for an airing of many of the embarrassing details.

In the pantheon of modern Egyptian rulers, Mr Gamal Abdel Nasser stands tallest.

He was leader of the revolution that ousted King Farouk in 1952 and was a dominant voice in Arab councils until his death in 1971.

His views, which can best be described as a mixture of Arab nationalism and grass roots socialism, and known as Nasserism, were embraced by a generation of Arabs in the 1950s and early 1960s.

"It seems some members of Nasser's family believe that Nasserism can be inherited by his sons... We expect the prosecution to order the arrest and the extradition of the accused if the charges reveal that he (Nasser's son) knew those whom he met several times were culprits," Mr Ahmed wrote.

The newspaper editor, who was the target of a shooting incident by Moslem fundamentalists (not "Egypt's revolution") in June, called on Nasser's family "to bring the absent son from exile to give his testimony before the prosecution".

Mr Khaled Nasser, who is in his forties, fled to London earlier this year. He is now reported to be in Yugoslavia.

It is unclear whether the authorities, worried about a scandal close to presidential elections early in October, facilitated his departure from Egypt.

In September the state prosecutor imposed a news blackout on the reporting of the case involving "Egypt's revolution" after arrests were made.

Mr Khaled Nasser was conspicuously absent from a family gathering at an annual memorial service held in Cairo on September 28 to mark the death of late President Nasser.

"Egypt's revolution" has claimed responsibility for three attacks on Israeli embassy employees in the past three years.

The most serious incident was the killing in August 1985 of an Israeli diplomat.

On May 26 this year, the group ambushed a car carrying Mr Dennis L. Williams, the security chief at the American embassy and Mr John Hucke, his assistant, wounding them slightly.

An interesting dimension to the case are reports from usually reliable sources in Cairo, that the US embassy played a role in the investigations that led to the arrest of some of the leader's of "Egypt's revolution".

US embassy officials say they have been sworn to secrecy.

However, there have been indications of American displeasure over the fact that Mr Khaled Nasser was able to leave Egypt, apparently unhindered.

At one stage he was thought to be staying in London with Mr Ashraf Marwan, a wealthy Egyptian businessman, who is married to Mona Nasser, President Nasser's second daughter.

He is reported to have fled to Yugoslavia because he feared an assassination attempt by agents of Mossad, Israel's overseas spyforce.

THE LEX COLUMN

Europe shows the strain

It looks as if the US has won the latest hand in its high-stakes poker game with the rest of the international financial community. A week ago the prospect of a major concerted European initiative to cut interest rates would have been almost unthinkable, given the lack of progress in reducing the US budget deficit. But by yesterday morning the combination of Monday's nasty falls in various financial markets and the increasingly gloomy noises coming out of West Germany had produced a change of sentiment.

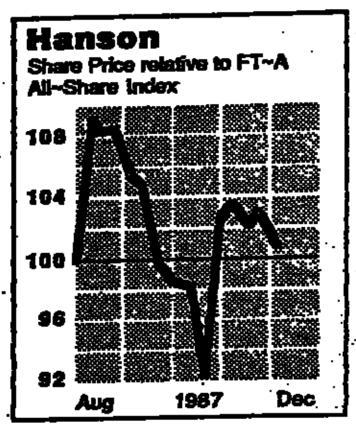
Indeed, a failure by the West Germans, in particular, to cut their discount rate could have precipitated some very ugly scenes in both the foreign exchange and equity markets.

Europe has now done almost everything it can to stem the dollar's slide and help restore confidence in the international financial system, while the US has still to prove that it can deliver on its side of the bargain. This perhaps explains the decidedly muted reaction to yesterday's interest rate cuts. The dollar managed a half-hearted rally but closed in London well below the day's peak and well below its level of last week.

Rather ominously, index-linked stocks were roaring ahead yesterday, while long-dated stocks fell, underlining the market's increasing nervousness about inflation. From the UK gilt market's perspective at least, upward pressure on the exchange rate has forced the authorities to temper their concerns about overheating, risking inflationary pressures next year. The equity market, by contrast, seems to have interpreted the European interest rate cuts as further evidence that the authorities are more concerned than ever about the possibility of a world recession. Today's US unemployment figures - the first hard evidence of the health of the US economy post-crash - should give a clue to the reality behind both markets' worries.

Hanson

The market's severe confusion about Hanson in the aftermath of the crash was perfectly understandable. The relative costs and benefits of a slow-down are nowhere more finely balanced: UK earnings play US earnings, well-spread consumer businesses are somewhat off-set by bricks and paint, and the strengths of a recession-weathered management team are qualified by a slowdown in deal-making momentum. As it happened, experience seemed to win the day - despite the fact that Hanson today bears little resemblance to its 1980 form - and the shares have outperformed over the past two months.



However, the preliminary figures may edge the argument the other way. There is something ominous about a business that has to raise its pre-tax profits by 60 per cent to increase earnings by 31 per cent. It may be slightly unfair to dust down the rather artificial distinction between organic and acquisition growth, but, when the latter is barely in double figures, a hard look at the new acquisition arithmetic is justified. Contrary to popular opinion, Hanson is not rolling in spare cash; it is in fact 60 per cent geared and the de-gearing - through selling off parts of Kidde - will now be slower. Once bid valuations come back in line with stock market realities, there is no reason why Hanson cannot gear up again (as it will not issue paper on a multiple of 8.5). But there is unlikely to be any movement for six months and even then gearing may not allow a giant deal. The earnings outlook does not look exciting if Hanson is forced to behave more like BTR, and, in a bear market, harder questions will be asked about that interest and other income of £114m - even if the Midland stake is taken as a fixed asset investment. A 15 per cent discount to the market is, at least, already reflecting most of this.

Bass

The market's only problem with Bass these days is deciding whether its outperformance has gone far enough. Since the crash the FT-SE100 index has fallen by 31 per cent, and Bass - the classic refuge for the nervous fund manager - is down by little more than half that. But the stock's relative performance has yet to make up for its decline over the previous eighteen months; in turn due partly to the Monopolies Commission but mostly to the fact that the earnings predictability which is now its strength was reckoned simply boring in a bull market.

It could be argued that Bass has weakened its pure reliance on UK brewing and bricks and mortar with its departures into the holidays business and hotel franchises overseas. But brewing still accounts for over four fifths of earnings, and even the inclusion of Holiday Inns will leave the overseas content of pre-tax profit well under 10 per cent. The revalued property portfolio is meanwhile worth over £2bn, not far short of the group's market capitalisation.

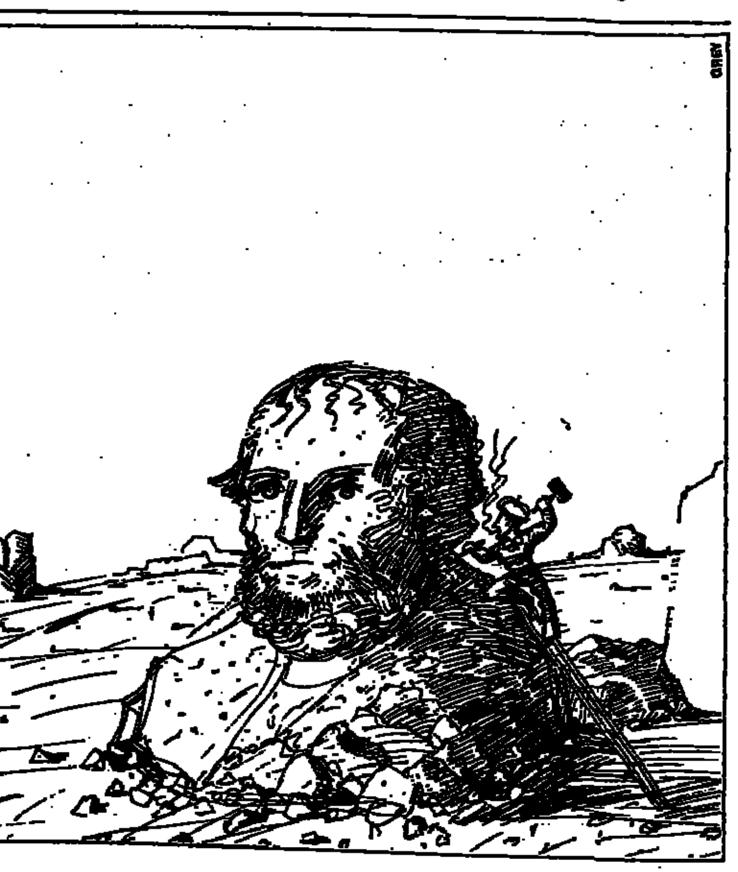
The official inquiry into the tied house system certainly poses a threat - even if Bass gained relative to its competitors, it would surely suffer in absolute terms - but not until the 1990s. Bass meanwhile looks like producing 15 per cent earnings growth this year, which is both a higher forecast than for the market as a whole and probably more trustworthy. But though the prospective multiple of 9.5 may be a little cheap, after the recent outperformance the market may take a little while to see it that way.

Mecca Leisure

Mecca may have made a success of bingo, but yesterday it went in for a gamble of a different order. The news that the company had launched the first straightforward rights issue in the UK market since the crash knocked 11 per cent off the share price to 160p - 10p below the theoretical ex-rights price. In spite of a discount of over 20 per cent, the sub-underwriting was plainly hard work; the days are gone when such an issue would have been snapped up with time to spare before lunch, and yesterday's market conditions did nothing to help. The current 20p cushion over the issue price cannot absorb many more market shocks.

Whatever the shadows over financing Mecca's £55.1m holiday camps purchase, the industrial logic is clear for both buyer and seller. Ladbroke needs to shed peripheral businesses since buying Hilton Hotels, while Mecca is right to go down market to broaden its range of holiday accommodation. If Mecca can keep up the glittering earnings growth of its first year since coming to the market, a prospective ex-rights p/e of just over 10 does not look extravagant.

Illustration: H. Edelmann



FINANCIAL TIMES
Friday December 4 1987

Shearson clinches $1bn merger with E.F. Hutton

BY ANATOLE KALETSKY IN NEW YORK

SHEARSON Lehman Brothers and E.F. Hutton, *two of the leading stockbrokers on Wall Street,* yesterday signed a definitive merger agreement which will create the biggest broking firm in the US.

Within hours of his announcement that he had finally achieved his long-standing ambition of buying Hutton, Mr Peter Cohen, the Shearson chairman, predicted substantial staff lay-offs designed to achieve cost savings of about $400m a year.

The takeover, which was agreed in outline on Tuesday night, but took another 24 hours of intensive negotiations to finalise, values Hutton at about $29 a share, or just under $1bn.

Shearson will pay $29.25 a share in cash for 85 per cent of Hutton's 33m common shares outstanding and then exchange the remaining 15 per cent of Hutton for newly-issued debt securities with a face value of $140m.

The new securities will be Shearson subordinated debentures with an annual interest *rate of 10.75 per cent and a* maturity of seven to 10 years.

The deal is widely viewed on Wall Street as a good bargain from Shearson's standpoint, even considering the recent rumours about Hutton's losses in the stock market crash, and the company's recurrent financial problems and poor management record.

The price represents a modest premium over Hutton's book value of $26 a share, and is little more than half the $50 a share which Shearson was willing to pay a year ago, when Mr Cohen made his first approach to Hutton.

The combined company, whose name has not yet been decided, will top Merrill Lynch as the biggest retail brokerage force in the US, and overtake Salomon Brothers as the best capitalised firm on Wall Street.

Mr Cohen said yesterday that the total capital of the new firm would be $3.7bn.

This compares with the latest reported capital levels of $3.4bn *at Shearson and $1.7bn at Hutton.*

After allowing for the cash which Shearson will be spending on the acquisition, it suggests that one or both of the firms may have decided on substantial write-offs since their last published financial reports.

Mr Robert Rittereiser, Hutton's president, again denied yesterday that his firm had suffered seriously in the stock market crash. He did disclose, however, that Hutton's decision to seek a merger partner was taken on the night of Black Monday, October 19.

The combined staff of the two companies will number about 45,000, including 12,000 retail financial consultants, but significant cuts are widely expected.

Mr Cohen said yesterday he could make no guesses about the ultimate size of the firm's payroll until next spring, as the process of integrating the Hutton and Shearson operations would take at least six months.

Seagram advances 28.8% as sales rise

SEAGRAM, until recently the world's largest spirits company, yesterday posted a 28.8 per cent rise in quarterly net income on the back of increased sales of wines and spirits and continued strength in its international operations.

Net income in the company's third quarter rose to $147.2m or $1.53 a share, from $114.3m or $1.20 a share in the corresponding year-earlier period.

Quarterly sales and other income totalled $927.4m, against $868.4m in 1986.

Earnings for the nine months ended October 31 reached $402.4m ($2.52 a share) on sales of $2.63 bn, against $330.5m ($2 a share) on sales of $2.31 bn a year ago.

The latest figures underlined the importance of Seagram's stake in the US chemicals company, E.I. du Pont de Nemours.

A combination of dividend income and equity in unremitted earnings of Du Pont accounted for $95.3m or 65 per cent of Seagram's third quarter profits, compared with $71.6m (63 per cent) in the 1986 third quarter.

Seagram, which is effectively controlled by the Montreal branch of the Bronfman family of Canada, said it had taken advantage of the general stock market decline to buy an additional 475,000 Du Pont shares, raising its equity interest in the company to around 22.7 per cent.

It has also bought back about 1.1m of its common shares.

Income from spirits and wine operations in the latest period rose by $8.4m to $51.9m - an improvement attributed by the company to sales of Seagram's Coolers and a degree of stabilization in declining US spirits consumption.

Legrand emerges as new bidder for MK Electric

BY DAVID WALLER IN LONDON

THE French electricals company *Legrand emerged yesterday as* the second bidder for MK Electric, the electrical accessories manufacturer, which is subject to an unwelcome £206.5m ($373m) bid from RTZ, the mining and industrial group.

Legrand confirmed its intentions after Siemens, the West German electricals company, said it did not wish to proceed with a bid. On Wednesday, MK indicated that Siemens would be its preferred suitor.

Legrand held meetings yesterday with MK to try to secure the recommendation of the UK's management, and did not detail the terms of its offer. Market makers expect it to be about 660p, the price at which it is believed to have bought about *1m MK shares yesterday,* taking its holding to more than 8½ per cent. This would value the company at £247.5m.

Neither MK nor Legrand were available for comment last night. However, yesterday morning Mr Roger Leverton, MK's chief executive, expressed his astonishment at Siemens' decision not to proceed with a bid.

"It is amazing," he said. "There has been no satisfactory explanation for their decision. All the signs were positive, and we acknowledged that they would be the preferred suitor."

It emerged that Siemens and Legrand had held lengthy talks on Tuesday at Heathrow airport. It is not known what was discussed, but Salomon Brothers, advisers to the West German company, rejected suggestions that there was any connection between the talks and Siemens' decision not to proceed with a bid.

Meanwhile, RTZ stressed the industrial logic behind its bid, and Mr Derek Birkin, RTZ's chairman, said that under Legrand, MK would become "a French satellite" and would be a victim of much rationalisation. He argued that within Pillar, the RTZ subsidiary serving the construction industry, MK would be able to thrive as an independent company nourished by RTZ's financial resources.

MK's shares closed at 662p, 38p down on the day.

Hitachi posts 20% rise in profits

BY OUR FINANCIAL STAFF

HITACHI, the leading Japanese electrical group, lifted consolidated net profits by 20 per cent in its first half to September to reach Y56.06bn ($423.3m), compared with Y46.56bn in the period last year.

However, sales dipped 1 per cent to Y2,415bn.

Hitachi said the earnings gain was achieved by cutting costs. The appreciation of the yen, while continuing to dent exports, also made imported materials less expensive.

Exports, which make up a quarter of all sales, were down 9 per cent and are expected to show a 12 per cent contraction in the year as a whole, for which Hitachi is forecasting group net profit up 17 per cent to Y115bn.

This was raised yesterday from an earlier projection of Y102bn.

Full-year sales are put at Y4,760bn, a decline of 2 per cent.

In the latest six months, consumer products fared worst, with turnover slipping 11 per cent. Information and communications systems and electronic devices, the biggest division, grew 8 per cent while industrial machinery and plant showed a 3 per cent gain.

The group said the upward revision in the 1987-88 profits outlook was based on expected strength in the world semiconductor market price and continuing higher domestic demand for construction machinery.

Hitachi is cutting the year's capital spending by about 13 per cent to Y310bn but is putting nearly 3 per cent more into research and development, budgeting a Y320bn outlay.

Texas Bank sees loss of $325m

By Roderick Oram in New York

FIRST REPUBLIC BANK, the largest bank holding company in Texas and 12th largest in the US, expects to report a fourth quarter loss of between $325m and $350m, far higher than earlier estimates, because of the deep malaise of the local real estate sector.

The full-year loss could total around $650m, making it one of the largest US bank losses ever from domestic factors. Huge write-offs of Third World debts, however, have had a bigger impact on a number of large money centre banks.

Drexel to take over US market maker

BY RODERICK ORAM IN NEW YORK

DREXEL Burnham Lambert, one *of the largest Wall Street investment houses,* is to take over Carl H. Pforzheimer & Co, a specialist firm which makes markets in 26 issues on the New York Stock Exchange floor.

The move is part of the accelerating trend toward consolidation and recapitalisation of specialists in the wake of October's equity market collapse.

Specialists, empowered by the exchange to use their capital to ensure orderly markets in stocks, ran up heavy losses as prices collapsed on October 16 and 19.

Most have traded their way back into the black but the severe pressure showed up the system's need for more capital.

Mr John Phelan, chairman of the NYSE, told a securities industry conference that a number of non-financial companies had *also shown interest in some form* of business combination with specialist firms. He added there were no restrictions on how the firms raised capital and they could, for example, make public stock offerings.

Drexel declined to specify how much money it was injecting into Pforzheimer but said it would represent a "substantial" increase in the firm's capital.

Drexel will retain the specialists who make markets in such stocks as Amoco, Johnson Controls and Inland Steel. The capital will be "100 per cent Drexel's" but the specialists will share in the firm's profits.

Mr Robert Linton, Drexel's chairman, said: "We understand trading and we think it is a good way to use our capital.

RHP to sell ball bearings business

BY DAVID WALLER

RHP, the largest British-owned manufacturer of ball and roller bearings, is to dispose of its ball bearings business for £73.5m ($133m) in cash.

The business, which has annual sales of some £95m and profits of about £10m, is to be bought by a new company backed by City of London institutions. The deal is claimed to be the biggest "management buy-in" in the UK.

The company is to be run by a new management team to be headed by Mr Alan Bowkett, managing director of Boulton & Paul, a building products subsidiary of BET, the international services group.

RHP was formed in 1969 at the instigation of the Labour government's Industrial Reorganisation Corporation. Since then it has struggled successfully to defend its position against fierce competition from overseas, and has been credited by the City with turning itself into a broadly based engineering group.

Since 1975, it has made a number of selective acquisitions within the electrical engineering sector. This accounted for more than half the group's pre-tax profits of £21.9m for 1986-87.

RHP now wishes to concentrate on its electricals activities. It said yesterday the investment required to tease further growth out of the bearings business would have constrained the growth of the other businesses, where it sees greater potential.

By contrast, Mr Bowkett intends to institute a programme of capital expenditure to make the bearings business more efficient. Spending will amount to between £3-£4m a year.

It is likely that the company will return to the stock market in three years, and existing managers are to be offered share options by way of incentive.

RHP put its bearings business up for sale several months ago, attracting several serious inquiries. Five weeks ago, it agreed to sell to the present consortium, which has been put together by Citicorp Venture Capital, the venture capital arm of Citicorp Investment Bank, and Standard Chartered.

Wood Gundy to lay off 150 employees

By Robert Gibbens in Montreal

WOOD GUNDY, the leading Canadian investment dealer hit by defections and a potential C$55m (US$41.9m) loss on underwriting the recent British Petroleum offer in Canada, has told 150 employees that they are to be laid off, with immediate effect.

The lay-offs will affect the dealer's coast-to-coast operations, although Toronto will be especially hard hit.

Wood Gundy, once Canada's leading investment dealer and underwriter with offices in London and New York, has about 2,000 employees. These include 300 taken on to handle the boom in securities markets last year and the vacancies caused by the defection of a senior management group to Walwyn, a retail house.

Mr Edmund King, vice chairman, said Wood Gundy's talks with First National Bank of Chicago were still "very active".

Before the October 19 market crash, First Chicago agreed to buy 35 per cent of the dealer for C$270m, but a week ago said it was reviewing the deal.

Italian unit trusts hit by redemptions

BY DAVID LANE IN MILAN

ITALY'S UNIT trusts had their worst month ever in November as savers continued to react to October's stock market crash by cashing in their investments.

Net unit trust redemptions amounted to L2,022bn ($1.66bn) in November, significantly higher than the net outflows of L1,477bn and L1,540bn suffered by the industry in October and September.

The latest figures contrast strikingly with the pattern of investment over the first half of 1987 when Italian mutual funds enjoyed average net monthly inflows of about L980bn.

According to the BCI index, the Milan bourse is one third short of its April high. The bourse was hard hit during October falling by more than a fifth.

Although most of the selling pressure came from non-residents wary of lire devaluation scares, it is clear that domestic sentiment has also been severely dented.

November's total gross redemptions were L2,711bn, registering a record. Italians reduced their savings in mutual funds by L2,139bn in October and L2,088bn in September. There was no surprise that funds attracted only a modest level of new savings last month. Total new subscriptions amounted to L689bn.

Net assets of Italy's unit trust amounted to L60,914bn at the end of November. This was 15 per cent lower than the year's maximum, reached in April.

Figures from the funds' association Assofondi showed similar levels of savings in Italy's three types of mutual fund. At the end of November, net assets of ordinary share funds were L16,053bn, while funds investing in bonds had assets of L22,854bn and mixed funds L22,007bn.

Bofors names new head

BY OUR STOCKHOLM STAFF

MR EGON Linderoth will take over as managing director of Bofors, the Swedish arms company under investigation for weapons smuggling activities, with effect from next March.

Mr Linderoth, 50, is executive vice-president of Saab-Scania, the Swedish motor and aerospace group.

Bofors said that Mr Linderoth had not worked directly with Saab-Scania's weapons activities, but had been involved with the aircraft and missiles business.

Mr Per-Ove Morberg, who stepped in temporarily as managing director of Bofors in March following the resignation of Mr Martin Ardbo in connection with the smuggling scandal, will become deputy managing director when Mr Linderoth joins the group.

Deutsche Bank result suffers from market crash

BY HAIG SIMONIAN IN FRANKFURT

PARTIAL OPERATING profits at Deutsche Bank, West Germany's biggest commercial bank, fell by 22 per cent to DM1.23bn ($745.5m) in the 10 months ended October 1987, against an estimated DM1.58bn for the same period last year.

The figures, which are adjusted to exclude last year's windfall gain from the Flick flotation, show Deutsche Bank's profits have dropped by appreciably more than the 16 per cent and 14 per cent falls shown last week by Dresdner Bank and Commerbank respectively.

Mr Wilhelm Christians, Deutsche Bank's chief executive, who is retiring next year, put a brave face on results which must have been hard for Germany's proudest bank to swallow.

It was the first time there had been a fall in group operating profit in 10 years, he said, and he went out of his way to emphasise the bank's healthy capital ratios.

Group capital had risen to DM9.8bn, representing a doubling in six years. The ratio of own capital to total assets was a "comfortable" 5.7 per cent at parent company level and 4 per cent in the group, he said.

Deutsche Bank has clearly been dented by securities write-downs following October's stock market crash. These are "entirely" responsible for the accelerated fall in the parent bank's full operating profits compared with its results at the half-year stage, it said.

Mr Christians emphasised the bank observed the principle of lowest value in assessing its securities holdings. But he conceded that the write-downs reported at the 10 months' stage only covered securities held in the bank's trading account.

Write-downs for securities held as part of the bank's corporate finance and new issues activities had not been included in the latest figures. Failing any substantial upturn in share prices therefore, further write downs were likely to be necessary on December 31, when these holdings would have to be incorporated in the bank's year-end resuts.

Among holdings likely to be affected are shares in domestic companies like Continental, whose prices have fallen heavily since mid-October. The same will hold true for Deutsche Bank's substantial position in Fiat. Mr Christians declined to comment on the Fiat shares beyond implying that the upturn in the group's fortunes this year suggested the shares were worth keeping.

Full operating profits, which include gains from own-account trading, for the parent company were not revealed. However, the bank said earnings had declined by 36 per cent against the figure for 10 months of 1986, excluding the one-off Flick gain.

Group results, which are only published as a percentage change against 10 months of the previous year, fell 13 per cent at partial operating level and by 27 per cent for full operating profits.

Interest earnings in the parent company fell to DM3.6bn owing to a lower interest margin. However, the bank has managed to contain its interest spread since its half-year results, and business volume has risen 9 per cent against the first 10 months of last year.

Banking diplomat bows out after 22 years at the top

AT LAST we know. Mr Alfred Herrhausen, tall, slim and debonair, is to be the sole speaker (chief executive) of Deutsche Bank, West Germany's leading financial institution, when his long-serving counterpart, Mr Wilhelm Christians, 65, retires in May, **writes Haig Simonian in Frankfurt.**

Mr Christians, a stock exchange expert who represents the Duesseldorf half of Deutsche Bank, has cut a dapper figure in German finance for 22 years since he joined the board of Deutsche Bank in 1965.

How will matters change once Mr Herrhausen takes sole charge at what is commonly taken to be one of the world's best-managed banks?

Conventional wisdom has it that Mr Christians, who has a strong interest in eastern Europe, is the bank's diplomat and paternal figure compared with the thrusting and sometimes arrogant Mr Herrhausen.

But those who claim to be in the know say the roles are sometimes reversed. For all his air of cool detachment, stories ciculate of Mr Herrhausen's friendliness, and especially his sympathy to junior colleagues in difficulties.

For some, the decision by the bank's managing board not to choose a successor to Mr Christians came as no surprise. For others, it brought to an end a lengthy period of speculation which seemed almost as interesting to German financial journalists as the fate of the national football team or Boris Becker's love life for their sports colleagues.

Giving Mr Herrhausen free rein may have been a foregone conclusion. The sudden death in late August of Mr Werner Blessing removed one strongly-tipped contender to take over from Mr Christians.

Talented as they may be, neither of the two other commonly-mentioned candidates had quite the stature to match Mr Herrhausen. Mr Hilmar Kopper, responsible for Europe, including Comecon, is seen as very able without being uncontestably ahead of his colleagues.

Mr Ulrich Weiss, responsible for internal organisation and data processing, had been advancing quietly while being reluctant to discuss anything but credit cards and the future of the Eurocheque in public. And a bank with two speakers in which one was clearly the junior partner may have been recognised as being the worst of all worlds.

Making Mr Herrhausen the unquestioned *primus inter pares* will in time bring a breath of fresh air to a still very bureaurratic and conservative bank, which, with its strong corporate culture, at times seems more akin to a country's foreign office than a commercial institution.

Mr Herrhausen is committed to the bank's policy of developing international investment banking, and he is also known to be keen on expanding into retail banking activities in western Europe, notably in Spain and France. In the longer term, there may also be a gradual decline in the role of Duesseldorf, the bank's co-base, in favour of Frankfurt.

However, few expect any changes overnight, and Mr Christians will remain firmly in the co-speaker's chair until May. Moreover, the bank has no lack of powerful elder statemen; Mr Herrmann Abs, 86, its legendary honorary chairman, is still going strong, while Mr Wilfried Guth, 68, remains firmly in place as chairman of the supervisory board.

Wilhelm Christians: cut a dapper figure

Aga sets up gas plant with Kloeckner Stahl

BY SARA WEBB IN STOCKHOLM

AGA, the Swedish industrial gas concern, has agreed to set up a jointly owned gas production plant with Kloeckner Stahl, the West German steel company, in Bremen.

Production at the new plant should help cut Aga's distribution costs in northern Germany where the Swedish concern has been trying to increase market share.

It should also reduce Aga's need to buy industrial gases from competitors in order to supply customers, the group said.

Aga and Kloeckner Stahl will take equal stakes in the joint venture, which will be called Bremer Industriegas, and which will supply both companies with oxygen, nitrogen and argon.

The two companies will initially invest DM50m ($30.3m) in the plant, and the new company will have share capital of DM15m. Plant should be ready to start production in two years. Aga said that it expects annual production to reach about 300m cubic metres.

Aga, which ranks third in the West German industrial gas market after Messer Griesheim and Linde, already has two gas production plants in southern Germany and the Ruhr area, but wanted to strengthen its position in the north.

Last year, Aga ended its joint venture agreement with L'Air Liquide of France. As part of the deal, Aga took over three quarters of the existing joint ventures in West Germany, while L'Air Liquide acquired Aga's shares in the Belgian and Luxembourg ventures.

Berliner Bank shows 12% rise in earnings

By Leslie Colitt in Berlin

BERLINER BANK, the West Berlin bank which suffered "special losses" of DM75m last year, has shown a rise of 12.1 per cent in earnings to DM104.6m ($63.4m) in the first 10 months of this year.

Last year's losses resulted from DM30m in bad loans and "manipulation" by its Stuttgart branch as well as high risk loans by the Hanover branch. In addition, Allbank, a hire purchase finance house in Hanover owned by Berliner Bank, incurred heavy losses.

The bank, which is still mainly owned by the city of West Berlin and is being privatised, could not yet say how high this year's dividend would be. Last year's payoutwas omitted because of the extraordinary losses.

Banks form partnership in aircraft leasing

BY PAUL BETTS IN PARIS

A GROUP of big French and international banks has teamed up to offer operating leasing facilities for the world aircraft industry in a new aircraft leasing partnership called Partnairs.

The partners in the venture include Banque Nationale de Paris, the French Suez financial group, Societe Generale de Belgique, Sumisho Lease, a subsidiary of the Japanese Sumitomo group, and Tokai, the Japanese bank. The partnership also wants to extend the association to another international financial group.

The partnership will have an initial capital of $40m and will be managed by Mr Pierre Pailleret, who joined the Suez group as an adviser last year after serving as the senior vice president of marketing of the Airbus Industrie European aircraft consortium.

The new financial venture believes there are growing opportunities in the world aircraft industry for leasing instruments, especially so-called shorter term operating leases. Although only 1 per cent of new aircraft production was bought by operational lessors in 1980, the percentage has already grown to 16 per cent last year.

Mr Pailleret emphasised yesterday that the partnership would not be competing with banks. Instead it would be working with them by not offering long term financial leases, but concentrating instead on shorter term operational leases.

INTL. COMPANIES & FINANCE

Sanko Steamship returns to profit

Carla Rapoport in Tokyo reports on a recovery which demonstrates Japan's extraordinary industrial resilience

SANKO STEAMSHIP, which collapsed two years ago in the largest corporate bankruptcy ever recorded in Japan, is back in profit.

The swift turnround, given the troubled state of the world shipping industry, again highlights the extraordinary resilience of the Japanese industrial and financial sectors.

In an interview yesterday Mr K. Totoki, general manager of the trustee staff of Sanko, said the company is expected to report pre-tax profits of Y2bn ($15.1m) on sales of Y80bn for the year ended in January. It will be the first pre-tax earnings recorded by the company in nearly a decade.

"It has become more profitable faster than we expected. I think it can continue to grow in profit," said Mr Totoki. He gave the reasons for the swift recovery as an improvement in freight rates for dry cargo, lower operating costs and the not inconsiderable fact that its main bankers have forgiven almost all of the the company's Y520bn in debt.

Sanko went bankrupt in August 1985 after its three main bankers refused to grant the company fresh loans. It was a spectacular collapse. Mr Toshio Komoto, the company's founder and leader, was also Japan's deputy Prime Minister and a leading power broker within the ruling Liberal Democratic Party.

Sanko had long been something of an outsider in the shipping industry and the Japanese business establishment. Even so, its bankruptcy came as a surprise as big corporate collapses are rare in Japan. Most companies receive strong support from their bankers and clients in times of trouble.

Since the collapse Sanko's lead bankers - Daiwa, Long-Term Credit Bank and Tokai Bank - have almost entirely written off their Y233bn worth of loans to Sanko. The banks have managed to cover most of the losses through the sale of securities.

As a result, Sanko's default caused only a minor tremor in the Tokyo financial community and the episode has largely been forgotten. Under the company's rehabilitation plan, approved by the Government, Sanko is now all but free of its former debts.

In spite of its write-off of Y93bn, for example, Daiwa has since agreed to lend new money to the company, now under the guidance of court-appointed trustees. Altogether, Sanko has managed to borrow another Y10bn in order to get back on its feet.

Further, the bankruptcy allowed the company to bargain effectively with the militant Japan Seamen's Union, cutting the company's workforce to 1,000 from 2,400 before the crash. It has also slimmed down its fleet to 150 vessels from 240 at its peak. This places the new Sanko as the fourth largest shipping company in Japan.

Most importantly, however, it managed to cut a deal with Japan's trading houses, which own nearly 80 of its vessels. Even though the trading houses have not been paid for the vessels, they agreed to let Sanko use the ships for an agreed daily rate. This rate is now well below the current freight rates which the ships are earning, thanks to the recent recovery in dry cargo shipping rates. As a result, Sanko's profits shot up in recent months.

The trading companies may be losing patience with the deal, but the situation is unlikely to be changed. "They would like a new deal," said Mr Totoki, "but they have already signed this one." According to Mr Philip Milner-Barry, a director of Eggar Forrester, the UK shipbroker, in Tokyo: "No one wants to pull the plug on Sanko again."

Sanko's shares were de-listed following the collapse. Mr Totoki said it is unclear when the shares would again be quoted as the rehabilitation plan is still not finished. In the meantime, however, Sanko has raised the ire of others in the industry which are not so fortunate as to be operating clear of debt.

Japan Line, for example, is under effective rehabilitation with the aid of Industrial Bank of Japan, its main bank. Unlike Sanko, Japan Line does not have the benefit of starting with a clean slate. But bankruptcy is still avoided in Japan, not the least because of the shame that comes with it. Japan Line is one of the grand old companies of Japan and, as such, its bankruptcy would be much more shocking to the Japanese than that of a long-time maverick like Sanko.

Even so, it seems something of a miracle that Sanko is back in business after so many years of losses. The revival of Sanko shows how well the Japanese financial, industrial and labour communities can work together when facing adversity.

Bell deal brings asset sales to A$1.4bn

BY CHRIS SHERWELL IN SYDNEY

A DUAL deal between Mr Robert Holmes a Court and Sydney-based Pioneer Concrete Services has added A$427m (US$299.8m) to the Perth entrepreneur's swelling coffers and enhanced Pioneer's own corporate strength.

Details of the deal were confirmed yesterday after some news trickled out on Wednesday night. It involves several Australian listed companies.

It also means Mr Holmes a Court has raised more than A$1.4bn in recent weeks - the other transactions being the sale of half his stake in Texaco, a small parcel of Broken Hill Proprietary shares and some Perth properties.

Some analysts believe the asset sales will be followed with a move to acquire a cash-generating business. For years, Mr Holmes a Court's main target has been BHP, the country's largest company.

Under the latest transactions:

- **Pioneer Concrete will purchase 23.7m shares in the oil company Ampol from Bell Resources for A$82.8m. The price of A$3.50 a share was the same as Bell Resources' cost price.**

The purchase takes Pioneer Concrete's stake in Ampol from 81 per cent to 88.2 per cent. Sir Tristan Antico, Pioneer Concrete's chairman, said the company was now preparing a scheme of arrangement to secure full ownership.

- **Pioneer Concrete acquired a small company, Neoma Developments, from the Bell Group. Neoma is entitled to 6 per cent of Pioneer Concrete's shares, and Pioneer says it will dispose of these within 12 months as required by law.**

At the same time buyers friendly to Pioneer Concrete - thought to include CSR, the sugar and building products group - bought another 66.45m Pioneer Concrete shares, representing the rest of Bell Group's 16.6 per cent holding.

Bell said the price of A$3.30 a share on these transactions meant it would incur a loss of A$76.1m before allowing for tax benefits of A$37.3m. This was "in recognition of current market conditions and to provide liquidity."

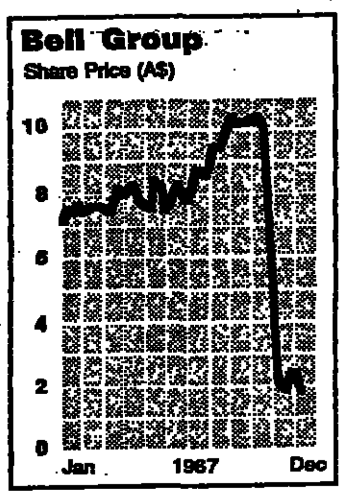
Apart from allowing Pioneer Concrete to move to full ownership of Ampol, the transactions mean Pioneer has reduced its previous vulnerability to predators. One of the most threatening was Mr Holmes a Court himself.

They also foreshadow a restructuring of the group. Last week Pioneer Concrete arranged to buy, through Ampol, an eventual 44 per cent of Giant Resources held by the troubled Ariadne group. A reorganisation of the group's interests is expected to follow this A$300m deal.

Mr Holmes a Court bought his Pioneer Concrete and Ampol stakes in August from Mr Larry Adler's FAI Insurances. Mr Adler had used the Ampol stake to thwart an earlier attempt by Pioneer Concrete to acquire full ownership.

John McIlwraith reports on next week's test for Holmes a Court

Perth spotlight on state parochialism



THE LOYALTY of elderly West Australian groupies who have for years applauded every word spoken by Mr Robert Holmes a Court (right) will be tested at next Wednesday's annual meeting in Perth of his Bell companies.

After 15 years in which profits have increased continuously, in which bonus issues had multiplied the market value of their shares many times, they wait for the Holmes a Court magic to wipe out the bad dream of the past month.

His meetings are jammed with people who have come to expect such largesse as a matter of course, and have lavished on the chairman of Bell Group the adulation their children reserve for pop stars.

Those who have held shares with him for many years will still have enormous profits on their investment.

Mr Holmes a Court has been almost invisible since the crash, but a friend says his spirits remain buoyant: "He sees this as like a war, which has to be won. He has certainly not taken a *defeatist attitude*."

With senior executives he has been working in his Melbourne office on permutations which would retrieve at least some of the group's fortunes - and the markets' perception of them - while attempting to limit an erosion of assets from the core of his empire.

The fire sales of the past few weeks still show few signs that the fairytale will resume. At the same time, they have highlighted his key position in the West Australian financial community and thrown into relief his ambiguous relationship with *the state authorities*.

The purchase by a semi-government instrumentality of Bell assets worth some A$500m (US$351.1m) seems startling to outsiders, but there is ample precedent for such intervention in Australia.

All the states - and the Federal Government - have engaged in it for many years. Governments of both main parties have unblushingly used their power, usually, in the case of the states, for quite parochial reasons. For example South Australia (under Labor) forestalled Mr Alan Bond, Perth's other most prominent corporate figure, in past efforts to take control of energy companies based in that state.

However, last month's purchases from Bell by the State Government Insurance Commission in Western Australia were certainly breathtaking in their magnitude.

It paid A$206m for a city centre portfolio of land and buildings which independent property valuers argue represented good value. Two days later it bought a 2.5 per cent stake in Broken Hill Proprietary, Australia's largest company, for A$288m. An assessment of that deal must be more subjective, but the dividend yield, even at the current depressed prices, is low.

While the commission is not actively seeking buyers yet for these holdings, it is likely that the State Government would seek to sell both land and shares in the medium term, for a capital gain that would vindicate its decision.

There has been talk of unhealthy links between the West Australian Labor Government and the state's millionaires. The criticism arguably has little weight in this case because the Government and Mr Holmes a Court were on very cool terms before the crash. He and Mr Brian Burke, the Premier, have not been reconciled since a very public dispute two years ago.

The Liberal opposition in Western Australia has attacked the deals with Mr Holmes a Court - but only on the grounds that more should be known about them, and that they were of such an immense scale.

His own shareholders have their chance next week to seek clarity on when his oft-quoted skill in always having "another way out" is next to appear.

Junk bonds' future hinges on Southland

THEY CALL it the Texas chain-store massacre.

Since the summer, the Thompson brothers of Dallas, Texas, have been trying to buy back their family business, a company called Southland which owns the 7-Eleven chain of convenience stores.

At $4bn, the stores cost a lot to buy and Southland was being saddled with debt by its new owners. But back in July, these risky transactions known as leveraged buyouts were routine.

The brothers could borrow even $4bn short-term from Wall Street and commercial banks and then pay a lot of it off by tapping a young but liquid source of long-term corporate debt: the $150bn market for the risky corporate securities known as junk bonds.

Although these bonds carry high rates of interest to compensate investors for their risk of default, the brothers reckoned they could service $1.5bn in junk securities from the stores' profits and from selling off parts of the business in a raging bull market for assets.

On October 19, the deal stopped being routine and became a nightmare. The junk bond market has turned out not to be so liquid after all.

Southland's investment bankers, Goldman Sachs and Salomon Brothers, have spent six harrowing weeks trying to sell the Southland junk bonds, only to find that their usual customers - mutual funds, insurance companies and other institutional investors - are having second thoughts about junk bonds and have taken refuge in safer US government paper.

Treasury yields have fallen more than one percentage point since the crash. But for weeks, yields on junk bonds either stood still or rose to compensate investors for their new anxieties about default.

Investors complain that the assumptions behind such top-of-the-market deals as Southland are looking less convincing, now that an economic slowdown threatens to cut the company profits dedicated to interest payments. The market for disposable assets apparently fell 20 per cent on October 19.

New issues have dried up. Only Drexel Burnham Lambert, the Wall Street firm which pioneered the use of junk bonds for takeovers and buyouts, has had the muscle and contacts to push through deals. With three financings in the $300m to $400m range, Drexel Burnham has temporarily regained its near monopoly of the primary market.

But Southland dwarfs such deals. Without the bonds, there will be no Southland buyout and New York financiers will be left managing a string of heavily indebted convenience stores. Goldman and Salomon have $100m of their own capital lent to the Thompsons, commercial banks led by Citicorp are up for $2.6bn in unsecured loans, while a good 30 per cent of Southland stock is still in the hands of the Wall Street takeover speculators known as arbitrageurs.

As the main pre-crash deal still to be financed, the Southland buyout has become a measure of the health of an entire financial market. Mr Robert Levine, an expert on junk financing at Kid-

As the main pre-Crash deal still to be financed, the Thompson family's ambitious $4bn buyout has become a measure of the health of an entire financial market, writes JAMES BUCHAN in New York

der Peabody, says: "It is the high-yield equivalent of British Petroleum."

On Tuesday, Goldman and Salomon filed a registration for a new set of junk bonds on terms far more advantageous to investors. "We had to basically go back to the drawing board," said a banker who knows about the deal. The most unpopular security in the Southland package - a bond which pays no interest except in new bonds for five years - has been dropped.

The firms have also persuaded the Thompsons to part with 10 per cent of the company's ownership, which can now be offered to lenders in the form of equity warrants.

Bankers say, with hindsight, that Goldman and Salomon should have offered equity features in the first place. Some of the "junior" bonds were so low on the pay-out chain in the event of Southland's bankruptcy that they had the disadvantages of shares without the ownership that shares confer.

Wall Street is desperately relieved. Although the bonds have yet to be priced, and will probably yield twice as much as the equivalent Treasury issues, it looks as if Goldman and Salomon and the banks have escaped the massacre with only their prestige in tatters.

On Wednesday, the junk bond market received a further show of support. Morgan Stanley said it had found investors in the US, Japan, Europe and the Middle East for a $1.1bn fund to invest in leveraged buyouts. Because such funds are usually leveraged from 10 to 20:1 with bank borrowing and junk bonds, Morgan Stanley now has firepower for deals of "at least $10bn," says Mr Thomas Saunders, who is chairman of the fund.

Though none of the money was finalised before October 19, investors stuck to their guns. "Less than $15m walked away out of $1.1bn," in the days after the Crash, he says.

Yields of the best junk bond issues have recovered strongly. Mr Steven Anreder of Drexel Burnham says his firm's index of 110 issues has returned investors 4 per cent in November, about eight times as much as Treasury bonds. But bankers warn that the market is not fully out of the wood.

Mr Levine of Kidder Peabody says: "It's become a three-tier market." The liquid and "seasoned" issues are now yielding 12.5 per cent to 13.5 per cent. But a second tier of small issues and securities that defer interest - such as zero-coupon or pay-in-kind preferred stocks - are still trading close to their all-time record yields.

And new issues, the third tier, are yielding over 16 per cent.

The market is looking keenly for information about asset values and the direction of the economy. Business sales by two companies that went private in the summer - Harcourt Brace, the publishing group, and Burlington, the largest US textile maker - have lived up to expectations in spite of the stock market crash.

Burlington, taken private by Morgan Stanley, is now highly profitable because the falling dollar has choked off European and Japanese competition in fabrics. But the market is anxious that other deals might unravel in a weaker economy.

Mr Saunders of Morgan Stanley says: "A few months ago, it was simple, you could buy it, mark it up and sell it. What we're going to see is that some people did not do their homework properly. They were too optimistic. Anybody who did that is going to get burned."

German withholding tax law draft due next month

BY HAIG SIMONIAN IN FRANKFURT

THE FIRST draft of West Germany's new withholding tax law on most savings and investments, announced unexpectedly in early October, should be ready to be sent to bankers' representatives by January 15, according to Mr Hartwig Meyer of the Federal Association of German Banks.

Meetings are already being held between experts from the Finance Ministry and the Zentrale Kredit Ausschuss (central credit committee), which is an umbrella organisation linking industry groups from Germany's private, co-operative and savings banks.

According to the working timetable, a draft bill, which will lay out the broad lines of the proposed 10 per cent tax due from 1989, should be ready by March next year, say bankers.

This will then be followed by further discussions. If everything goes to plan, the legislation will have its first parliamentary reading before the Bundestag's summer recess. The second reading should come soon after politicians return to Bonn in late summer and the final reading is due in October or November next year, allowing the bill to become law before the year-end.

IN MAY last year, the West German Federal Government forcefully rejected opposition calls for imposing a withholding tax. Among its detailed reasons were:

● Impairing the private propensity to save;

● A further shift to holding assets abroad;

● Weakening foreign investment in Germany;

● Rising domestic interest rates owing to less liquidity in the domestic capital market;

● Weakening the international standing of the domestic capital market in favour of the Euromarkets.

The Government also pointed to the example of Austria, where a withholding tax was introduced, only to be withdrawn soon after.

A large number of detailed questions remain unresolved, in spite of the fact that expert talks are now under way. In particular, bankers still need clarification of the planned tax treatment of D-Mark Eurobonds issued by the foreign subsidiaries of German companies.

From the investor's side, the Finance Ministry has taken pains to list the number of countries which have double taxation treaties with West Germany, meaning that investors based in these countries will be able to claim the tax back. Howver, Hong Kong and Saudi Arabia are only two of the notable exceptions.

There is also some uncertainty on the treatment of interest payments on debt issued in Germany by certain foreign borrowers. Borrowing by a subsidiary of a foreign company in Germany, which is legally independent of its parent abroad, clearly comes under the scope of the withholding tax. But it is still moot whether debt issued in Germany by a subsidiary which is not legally independent of its foreign parent will be affected.

Moreover, there remain dozens of detailed questions regarding interest rate swaps and, possibly, forward rate agreements. Within days of the tax announcement in early October, Mr Wolfgang Roeller, chief executive of Dresdner Bank, who is the current president of the Federal Association of German Banks, said he already had two closely-typed pages of detailed questions from his members.

For most domestic banks, however, the priority is to implement the proposals with the least inconvenience and in the most practicable way, says Mr Meyer. In particular, the question of maintaining bank secrecy, especially as regards customers' details, is an important issue given Germany's tight data protection laws.

A small minority of bankers think the tax may still be dropped before it becomes law, possibly as part of an overall package to stimulate the economy. Slightly more realistically, others believe that the Government will react to its critics and go ahead with the tax, but will set it at a zero rate, thereby leaving the legislation on the shelf for later implementation if necessary.

However, the prize for the most innovative suggestion must go to a senior financial figure in West Berlin. He has apparently suggested in private that the isolated city should now use its special political status under the three allied occupying powers and grasp the chance to become a new "offshore" centre for German finance.

The idea is not believed to have got very far. Similarly, the Finance Ministry in Bonn strenuously denies any suggestion that the tax may be dropped. For the time being, such ideas are more in the realm of bankers' wishful thinking than reality.

Bankers Trust repackages car loans

By Stephen Fidler, Euromarkets Correspondent

BANKERS TRUST International said yesterday it was offering participations in a $500m pool of car loan receivables to banks in Europe.

The loans were arranged by Chrysler Credit, the financing arm of the US car maker, and are being bought in a lot by Bankers Trust.

The pool, which is also being sold on to banks in the US, is protected from losses by being over-collateralised by 7½ per cent. The average annual loss experience over the last eight years on the loans has been a net 0.23 per cent.

The participations pay a 25 basis point margin over one-month Libor. Interest and principal repayments are made monthly. The final maturity of the facility is 36 months, and the contracted average life would be 15 months. But, because of prepayments of the underlying car loans, the expected average life of the facility is 13 months.

Chrysler Credit will buy back the final 5 per cent of the participations to ease administrative problems, and the unused extra collateral is also returned to the company.

Bankers Trust said it had offered such facilities before in Europe on an unpublicised basis, but was now trying to interest a larger number of European banks in the deals.

Such purchases by banks, which help captive finance companies reduce their balance sheet, are in fact common in the US market. From the car companies' point of view, however, the terms on such deals are not so fine as in the securitised deals, which are sold as securities in the US. Chrysler Credit made a securitised issue of $1.2bn in receivables last month, selling securities to investors at a fixed rate of 8.55 per cent.

European interest rate cuts fail to move markets

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

INTERNATIONAL bond markets yesterday reacted with supreme indifference to the round of interest rate cuts announced by seven European countries.

Britain took the lead with a half-point reduction in the Bank of England's money market dealing rates and bank base rates, followed by the Bundesbank's half-point cut to 2.5 per cent in discount rate. France, the Netherlands, Austria, Switzerland and Belgium also annouced rate reductions.

Virtually all sectors of the international bond market were very quiet, with only small price changes seen. To some extent, they were holding back as they waited to see how the currency markets and the New York market would interpret the co-ordinated rate cuts.

The US Treasury bond market, however, was similarly becalmed. Many houses have severely curtailed bond trading activities following the recent turmoil, aiming for an early closure of their books ahead of Christmas and the New Year.

Balancing the lowering of interest rates, which might be expected to boost bond prices, were growing background concerns about the monetary and inflationary implications of the continuing official cuts. These concerns were expected to contribute to a steepening of yield curves.

The West German market's reaction was muted, partly because the Bundesbank's move had been heralded by widespread forecasts and official indications. Prices of both domestic bonds and D-Mark Eurobonds edged fractionally higher ahead of the Bundesbank's announcement, but lost these gains during the afternoon to close virtually unchanged.

Britain's reduction, however, had not been expected. Dealers saw the UK yield curve steepening as prices of long-term gilt-edged stocks eased during the afternoon while the short end moved little.

Both the sterling and D-Mark sectors of the Eurobond market saw new issues, with the flow of new D-Mark paper continuing to meet a good reception. The market is expecting the DM300m issue for **Ferrovie dello Stato**, which eased somewhat but remained well within its fees, to be increased to DM500m today.

Yesterday's new issue was from **Bank of Greece**, the country's central bank. The DM300m five-year deal was priced by Westdeutsche Landesbank at 99¾ with a 5⅝ per cent coupon. Dealers felt that it was priced in line with the current market. The lead manager quoted the bonds 1½ points below issue price, within the 2 per cent fees, but somewhat wider discounts were seen elsewhere.

In Eurosterling, Canada's **Royal Trustco** made a £50m five-year issue led by County NatWest and priced at 101½ with a 10⅛ per cent coupon. The deal was carefully priced at levels

INTERNATIONAL BONDS

designed to attract underwriters who could carry out asset swaps against it - increasingly important as underwriters are reluctant to take on potentially risky or unprofitable commitments.

Swiss bond prices closed narrowly mixed before the National Bank announced its half-point cut in discount rate to 2.5 per cent.

TransCanada PipeLines made a SFr100m six-year issue led by Union Bank of Switzerland, priced at 100¾ with a 4⅞ per cent coupon. **City of Vienna** made its second privately-placed issue this week, a SFr100m deal with a maturity just under six years. It was priced by Wirtschafts-und Privatbank at 100⅝ with a 4⅜ per cent coupon.

Among recent issues in the Swiss market, **Province of Saskatchewan's** SFr100m 5¼ per cent issue finished yesterday at 104, down ½ point but well above its par issue price. The **World Bank's** SFr100m 5 per cent issue rose ¼ point to close 102½, also above its par issue price.

In Danish crowns, Finland's **Postipankki** made a DKr250m issue led by Bankers Trust International, which priced the deal at 101⅛ with an 11 per cent coupon.

Japanese bond house to trade US Treasuries

NIHON SOGO Shoken, Japan's largest bond broker, hopes to begin inter-dealer broking in US Treasury bonds in Tokyo in the next two to three months, **AP-DJ reports from Tokyo.**

The company, which still needs approval from the Japanese Ministry of Finance to offer the service, has been making preparations for more than a year.

Another big remaining obstacle is the method of settlement of the Treasury bond trades, since the bonds remain offshore, an executive of the firm said. Treasury bonds traded through other brokers in Tokyo and London settle in the US.

Nihon Sogo Shoken dominates the market in broking Japanese government bonds.

Hambros Bank sets up new consultancy

By Our Euromarkets Staff

HAMBROS BANK is setting up a consultancy company, Hambros Corporate Treasury Consultants, to provide advice to corporate clients on handling foreign exchange and interest rate risks. It will be independent of the bank itself, with the aim of providing impartial advice.

The new company, headed by Mr John Heywood, a vice-chairman of the bank, will provide fee-based consultancy services. "We believe that corporate treasurers increasingly seek a source of unbiased advice in these matters, in particular advice that is not primarily geared to steering them into transactions with the bank providing the advice," he said.

The new company may advise clients to use a wide range of banks or not to enter transactions at all. It will identify exposures, advise on the management of them, and provide training courses. It will not, however, provide forecasts of interest or exchange rates.

Fletcher rejected

BRITISH COLUMBIA Forest Products yesterday rejected a C$550m (US$419m) full bid by Fletcher Challenge, the New Zealand company which owns nearly 50 per cent of BC Forest, **writes our Financial Staff.** The Canadian company said it considers the C$19 a share bid too low.

Its directors acknowledged that the offer could be attractive to stockholders seeking a short-term gain, but added: "The offer price is below the expected trading price for the shares under normal market conditions and is well below the underlying value of the shares."

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 3

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	92⅞	93⅜	+0⅛	0	9.54
All Nippon Air 9⅝ 97	100	92⅞	93⅜	+0⅛	−0⅜	10.53
American Brands 8⅝ 92	150	97½	98	+0⅛	+0⅜	9.47
A/S Eksportfinans 7⅞ 93	100	91⅜	91⅞	+0⅛	−0⅛	9.51
A/S Eksportfinans 7⅛ 92	150	93¼	93⅞	+0⅛	−0⅛	9.19
Barc. Bk. Fin. 10¼ 89	200	†102⅛	102⅝	0	0	8.91
Belgium 9⅛ 92	400	99¼	99¾	+0⅛	0	9.24
British Telecom 7⅝ 96	250	86¼	86¾	+0⅛	−0⅛	9.99
British Telecom 8⅞ 94	150	96⅛	96⅝	+0⅛	−0⅛	9.59
Canada 9 96	1000	97⅛	97⅝	+0⅛	−0¼	9.46
Canadian Pac 10⅛ 93	100	101½	102¼	+0⅛	−0⅛	10.26
C.C.C.E 7⅛ 91	113	93⅞	94⅜	+0¼	+0⅜	8.97
C.N.C.A 7¼ 91	150	93¼	93¾	+0¼	+0¼	9.24
Coca-Cola Ent. 8¼ 90	100	†98¼	98¾	+0¼	+0⅛	8.94
Credit Lyonnais 9 91	200	99⅞	100⅛	+0¼	+0⅜	9.02
Credit National 7⅛ 92	100	93½	94	+0⅛	+0⅛	9.14
Credit National 7¼ 91	150	93⅞	94⅜	−0⅛	0	9.05
Denmark 7⅛ 92	500	91¾	92¼	+0⅛	+0⅛	9.48
Denmark 8¼ 91	300	97¼	97¾	+0½	−0⅛	9.07
E.E.C 7 91	100	93⅞	94⅛	+0¼	−0¼	8.88
E.E.C. 7¼ 93	250	91½	92⅛	−0⅛	−0⅛	9.29
E.E.C 8¼ 96	100	91⅛	91⅝	+0⅛	−0⅛	9.77
E.I.B. 7⅛ 93	100	91⅝	92⅛	+0¼	−0½	9.45
E.I.B. 9⅛ 97	150	97½	98	+0⅛	−0⅛	9.73
Finland 7⅞ 97	200	87¾	88¼	+0¼	−0⅛	9.92
Finland 7½ 93	200	91½	92¼	+0¼	−0¼	9.40
Ford Motor Cred 11⅞ 90	100	105⅜	105⅞	+0¼	+0⅛	8.43
Gen Elec Credit 10¼ 90	200	102	102½	+0⅛	+0¼	9.91
G.M.A.C. 8 89	250	98½	99⅛	+0⅛	+0⅛	8.77
G.M.A.C. 8¼ 89	200	99⅜	99⅞	+0¼	+0½	8.45
Hoesch 8¼ 97	100	†89¼	89¾	+0¼	+0¼	10.02
Hoesch 7⅞ 92	100	†94½	95	0	−0¼	8.87
Hoesch 7⅞ 94	300	†91½	92	+0⅛	+0⅛	9.66
Liberty Mutual 8½ 96	150	†91⅛	91⅝	+0¼	0	10.03
L.T.C.B of Japan 8 91	100	96⅛	96⅝	+0¼	+0⅛	9.18
L.T.C.B.of Japan 8 97	200	85¾	86¼	+0⅛	−0⅛	10.44
Mercds-Benz Cred 8¼ 92	100	†97⅝	98⅛	−0¼	−0¼	8.81
Mitsubishi Fin. 7⅞ 93	100	90⅜	90⅞	+0¼	−0⅛	10.08
Mutual America 7⅝ 92	100	†93¼	93¾	+0¼	0	9.61
Norway 7¼ 91	500	94¾	95¼	+0¼	+0⅜	8.87
Pepsico Inc 7⅛ 93	200	91⅛	91⅝	+0¼	−0⅛	9.45
Prudential Crp. 8⅞ 94	125	95⅝	96⅛	+0¼	+0⅛	9.60
Qantas Airways 10⅛ 95	140	102	102½	+0¼	−0⅛	9.92
Rep. of Italy 9 90	1000	100¾	101¼	+0⅛	+0¼	8.57
Saab Scania 9½ 97	125	101¼	101¾	+0⅜	+0⅜	8.92
Saskatchewan 10¼ 92	100	104½	105	+0⅛	−0⅛	9.32
State Bk S Aust 9¼ 93	100	97⅝	98	+0⅛	−0½	9.84
Swedish Expt.Crd.7¼ 92	100	94⅜	94¾	+0⅜	+0⅜	8.93
Swed Exp Cred 10 92	100	103⅛	103⅝	+0⅜	−0⅛	9.02
Sweden 7 91	250	93⅞	94⅜	+0¼	−0¼	8.86
Sweden 7 92	250	93⅛	93⅝	+0¼	+0⅛	8.95
Sweden 8¼ 96	200	94	94½	+0⅛	−0¼	9.77
Sweden 8½ 92	200	97⅞	98⅜	+0¼	0	8.99
Taiyo Finance 7¼ 94	100	†89⅜	89⅞	+0½	−0⅛	10.08
Toyota Mtr.Cred.7⅛ 92	150	92⅛	92⅝	+0¼	−0⅛	9.41
Victorian Rep 11⅛ 92	150	106⅝	107⅛	+0⅛	−0¼	9.60
World Bank 7 92	300	†93¼	93¾	+0¼	−0⅛	8.93
World Bank 9 97	300	95⅛	95⅝	+0¼	−0¼	9.74
Yasuda Trust Fin 8½ 93	100	93⅝	94⅛	+0⅛	−0⅛	9.96

Average price change... On day +0¼ on week +0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Arab Banking 5½ 92	150	97⅝	98⅛	0	−0¼	6.04
Avis Fin.SVS 5⅞ 92	100	†100	100½	0	−0¼	5.80
Bank of Greece 6½ 95	150	97⅛	97⅞	0	+0¼	6.93
Bank of Tokyo 5¼ 93	100	†103	103½	+0¼	+1½	5.02
Central BK. Turkey 7 92	200	†101½	102	0	+1	6.56
Degussa Int. 6⅛ 97	200	96⅛	97⅛	0	+0⅛	6.55
E.I.B 5½ 98	150	93⅝	94⅛	0	+0¼	6.33
E.I.B 6 97	300	98¼	99	+0¼	+0⅛	6.20
E.I.B. 6⅛ 96	300	99¼	100	+0⅛	+0⅛	6.18
E.I.B. 6⅛ 97	400	99¼	100	+0¼	+0⅛	6.17
E.I.B. 6⅞ 95	300	104	104¾	+0⅛	+0⅛	6.16
Euro.Coal& Steel 5⅞ 97	175	96¾	97½	0	+0⅛	6.29
Eurofima 6¼ 96	100	101¼	102	+0⅛	+0¼	5.99
Elec De France 5⅞ 97	300	†94⅞	95⅜	0	+0¼	6.41
I.A.D.B. 6 97	200	96¾	97⅛	+0⅛	0	6.46
IBJ 5⅞ 92	100	†102½	103	0	+0½	5.22
Japan Finance 5¼ 97	100	94⅞	95⅜	+0⅛	+0¼	6.44
Ireland 6½ 97	300	†98¼	98¾	+0⅛	+0⅛	6.69
Korea Dev BK 6⅛ 93	100	99⅝	100⅛	+0¼	0	6.61
Malaysia 6 –¼ 94	150	97½	98	0	0	6.67
Oesters.Kont.BK.5⅞ 92	200	†101¾	102¼	0	−0½	5.15
Portugal 5⅞ 92	150	100	100¾	−0¼	+0⅛	5.65
Portugal 6⅞ 95	150	102⅞	103⅝	+0¼	+1¼	6.16
Royal Insurance 5½ 92	300	†101⅛	101⅝	0	+0⅜	5.13
Statoil 6¼ 97	200	†96¼	96¾	0	−0¼	6.76
Soc Cent Nuclear 7¼ 95	150	102⅞	103⅛	−0⅛	−0½	6.76
Stuweag 5½ 96	100	94⅞	95⅜	+0¼	+0⅛	6.28
Tokyo Elec. Power 6 97	300	†97⅜	97⅞	+0⅛	+1	6.34
World BK. 6¼ 97	600	100	100⅝	0	0	6.22

Average price change... On day +0⅛ on week +0¼

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5⅝ 96	100	†98½	99	0	+1½	5.81
Asfinag 5 02	150	†97¼	97½	0	+0⅜	5.26
Bayer W/W 2½ 02	250	†95¾	96	−0½	−1	2.85
BBL W/W 2¾ 97	100	†81	82	+0¼	−0½	5.25
Elec.De.France 5 07	100	†98	98¼	+0¼	0	5.15
E.I.B. 4¾ 97	200	†98	98½	0	−0⅛	4.98
E.I.B 4⅞ 97	200	†99	99½	+0⅜	+1⅛	4.72
Ems Gotzeit 5 99	100	†98	98¼	0	−0⅛	5.21
Ireland 5 02	150	†92	92¼	0	+0⅜	5.81
Newfoundland 5⅛ 02	150	†99¼	99¾	0	−1¼	5.17
Polly Peck 6 92	75	†97¼	97½	+0⅛	+1½	6.73
Prov.of Manitoba 4¾ 02	200	†99	99¼	−0⅛	0	4.86
Prov. of Quebec 5 03	200	†97½	98½	+0¼	+0⅜	5.19
Qantas Airways 4¾ 97	110	†93½	94	+0⅜	−0⅛	5.60
SHV Holdings 4¾ 94	100	†99¼	99¾	−0⅜	−0¼	4.83
Tiroler 4¾ 97	100	†100¾	101¼	−0⅛	+0¼	4.62
TNT 5 95	100	†99½	100	0	−0⅜	5.04
Woolwich B/S 4½ 92	120	†97⅜	97⅞	0	−0⅛	5.07
World Bank 5 02	200	†94½	95	−0¼	0	5.53

Average price change... On day +0 on week +0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅝ 94	45	96	96½	+0⅛	+0⅛	5.32
E.I.B 4⅝ 94	40	96⅛	96¾	+0⅛	−0⅛	5.25
Elec. De France 5⅛ 94	20	99⅛	99½	0	−0⅜	5.26
Kansai Electric 4⅝ 94	60	95⅝	95¾	+0⅛	−0⅜	5.45
Norway 4¼ 92	60	96⅝	96⅞	+0⅜	+0⅛	5.09
Rep. of Italy 5⅜ 92	150	102⅝	102⅞	+0⅛	+0⅜	5.00
Sweden 4⅝ 92	50	97	97⅜	+0⅜	+0⅛	5.05
World Bank 5½ 92	50	102⅝	102⅞	+0¼	+0¼	4.90

Average price change... On day +0¼ on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aegon 5¾ 91 FL	100	99⅜	99⅞	0	+0⅜	5.86
Aegon 8¼ 89 FL	100	103⅛	103¾	0	+0⅛	5.91
Air Products 6¾ 91 FL	100	100⅝	101⅛	+0⅛	+0¼	6.43
Alg. Bk. Ned. 5¾ 91 FL	100	99⅜	99⅞	+0⅛	+0⅞	5.85
Alg. Bk. Ned. 7¾ 89 FL	150	103⅜	103⅞	0	0	5.83
Alg. Bk. Ned. 8 89 FL	200	102	102⅝	0	+0⅛	5.85
American Express OC.10 94	40	†98⅞	99⅜	0	−0½	10.17
BP Capital 13¾ 92 A$	75	100⅝	101	0	+0½	13.50
Creditanstalt 14⅛ 90	60	†100⅝	100⅞	+0⅛	+0⅜	13.71
Denmark 7¾ 92 ECU	100	†99⅝	100⅛	+0⅛	+0⅜	7.77
DG Fin. Co. 13¾ 90 A$	50	†104¼	105¼	−0⅛	−0¼	11.58
DG Fin. Co. 14 90 A$	75	†101¾	102¼	+0⅛	+2	12.99
DG Finance 14⅛ 92 A$	50	†100½	101	0	−0¾	14.06
Deutsche Bank 9¾ 97 £	75	†99½	100	−0⅛	+0¾	9.90
Deutsche Bk.14¼ 92 A$	100	†101¼	101¾	+0¼	+1½	13.70
Dresdner Fin.13¾ 91 A$	100	†99¼	100¼	+0¼	0	13.79
Electrolux 8 89 FL	60	102⅞	103⅜	0	+0¼	5.80
E.I.B 8⅝ 93 LF	1000	†102¼	103¼	0	−0¼	7.94
Euratom 7¾ 97 ECU	145	†92⅛	92⅝	+0¼	+0½	8.58
Euratom 11½ 88 FL	150	102½	103	0	0	0.06
Eurofima 7½ 92 FL	50	103⅝	104	0	0	6.51
Eurofima 17⅛ 89 Z$	50	†100¾	101¼	−0¼	+0½	16.98
Finland 6 91 FL	100	99⅜	99⅞	+0⅛	+0⅜	6.11
Ford.Mtr.Cred.13¾ 91A$	75	97⅞	98⅜	+0⅛	+0½	14.37
G.M.A.C. 9 92 £	50	99¾	100¼	0	+0⅞	8.97
G.M.A.C. 9¼ 92 C$	75	93⅞	94⅜	+0⅛	−0⅞	10.95
G.M.A.C Aus.Fin.14 90 A$	50	99⅝	100⅛	0	+0½	14.02
Halifax BS 10⅛ 97 £	100	†99⅜	99⅞	−0¼	−0⅛	10.42
Honda Mtr.W/W 3⅞ 90 FL	100	†105	107	0	+0¾	1.21
Hunter Dgas. N.V. 7 91 FL	50	101¼	101¾	+0⅛	+0⅛	6.45
Imp Chem Inds 10 03 £	100	96⅝	97⅛	−0¼	0	10.40
Inv.In Ind.Intl 10 93 £	60	101½	102⅛	−0⅛	+1⅛	9.54
Lease Pln. Ned. 6 91 FL	50	†97¾	98¼	−0¼	0	6.59
Leeds B.S 10½ 91 £	50	†101⅛	101⅝	−0⅛	−0⅛	9.95
Mort.Bk.Denmark 6 91 FL	150	98½	99	+0⅛	+0¼	6.36
Mtge. Bk. Dn. 6¾ 91 FL	100	100½	101	0	+0⅛	6.47
Nat.Australia 14 92 A$	50	100⅝	100⅞	+0⅛	+0⅞	0.00
Nat. West.Bk.13⅛ 92 A$	50	†98⅛	98⅝	+0⅛	+0⅛	13.59
Nationwide BS 10⅛ 93 £	75	†100½	101	0	0	9.91
New Zealand 7¾ 93 ECU	200	†97¼	97¾	0	+0⅜	8.34
Oesters.Kibk.13⅝ 94 A$	75	100⅛	100½	−0⅛	+1¼	13.52
Prudential Fin.9⅝ 07 £	150	89⅞	90⅜	−0⅛	−0⅜	10.58
S.D.R. 7¾ 95 ECU	90	†96¼	96¾	0	−0⅛	8.38
Tsthouse Forte 11⅛ 90£	50	103⅜	103½	+0¼	+0¾	9.45
Thyssen 7¼ 90 FL	50	102	102⅝	−0⅛	+0¼	6.32
Wessanen 6¾ 90 FL	50	101¾	102⅛	0	+0⅜	6.00
World Bank 13⅜ 92 A$	100	†98⅝	99⅛	+0⅛	+0⅜	13.66

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	.0312	99.89	99.99	11/12	7.64
Alliance & Leic.Bld 94 £	.08	99.22	99.27	21/01	10.27
Belgium 91	0	100.02	100.12	19/02	7.19
Britannia 5 93 £	0⅛	99.66	99.71	8/01	10.37
Chase Manhattan Corp 91	0¼	99.10	99.35	22/02	7.19
Citicorp 98	†0⅛	96.95	97.20	30/11	7.12
EEC 3 92 DM	†0	100.44	100.49	22/02	4.31
Halifax BS £ 94	.1	99.35	99.40	8/02	8.97
Invt. In Industry £ 94	0	97.92	98.02	24/11	9.44
Midland Bank 01 £	.1	96.12	96.32	11/02	8.97
Milk Mkt.Brd. 5 93£	0¼	99.37	99.42	30/12	10.37
New Zealand 5 97 £	.07	99.27	99.37	18/02	9.06
New Zealand 5 01	0	98.70	98.80	4/02	7¼
Shearson Lehman Hlds 91	†0¼	98.87	99.37	8/02	7.62
United Kingdom 5 92	0	100.06	100.12	7/01	8.19
Woodside Fin. 5¼ 97	0	98.81	98.91	28/01	7.69
Woolwich 5 95 £	0⅛	99.23	99.28	19/02	9.12

Average price change... On day +0.00 on week −0.04

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02	8/87	62.	91¾	92¾	−0⅜	33.79
Alco Health 6¼ 01	†7/86	26.25	69½	70½	+0¼	47.00
American Brands 7¾ 02	†9/87	56.7	93⅛	94⅛	−0⅜	44.13
American Can Co. 5¼ 02	4/87	66.75	64¼	65¼	0	68.63
Ashikaga Bank 2⅞ 02	4/87	967.	108¼	109¾	+0⅛	−0.36
Asics 5 92 DM	12/83	438.6	137½	139	+0¼	−0.01
CBS. Inc. 5 02	4/87	200.	87¼	88¾	−1	16.94
Chiba Bank 2¾ 02	*†1/87	790.5	175	175	0	5.29
Fuji Hvy Inds 3 00	8/85	676.	131¼	133	−0¾	−3.33
Fujitsu 3 99	5/84	1106.	177½	179	−3¾	−4.35
Gunma Bank 2⅞ 02	4/87	808.	127	128⅜	+1½	−1.89
MCA INC 5½ 02 US	9/87	69.62	68	69	−1	49.04
Minolta Camera 2¼ 94DM	2/86	1004.	88½	89½	0	47.74
Mitsui trust 2¾ 02	10/86	1903.	128¼	130¼	−0⅛	−1.68
Next PLC 5¾ 03 £	11/87	4.3	102	103⅛	+0⅞	80.12
Nippon Elec 2⅞ 00	†1/85	1295.	275	276	−1	−2.36
Oki Elec Ind 3½ 99	†10/84	805.	176	178	−0⅛	3.92
Omron Tateisi 2⅞ 02	4/87	1310.	149⅞	150⅞	−0¼	−0.60
Redland 7¼ 02 £	†1/87	5.4	85½	86½	+0¼	27.58
Yokohama Bank of 2⅞ 01	10/86	1014.	166	167⅞	+2	1.49
W.R. Grace 6¼ 02 US	9/87	42.12	70⅞	71⅜	−1⅛	−27.62

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Hanson betters forecasts with £741m

BY MARTIN DICKSON

Hanson, the acquisitive industrial holding company, yesterday announced a 60 per cent increase in 1987 pre-tax profits, from £464m to £741m.

The figures for the 12 months to September 30 included a full year's contribution from its last two big acquisitions –*SCM*, the US group, and Imperial, the UK tobacco to food business, both of which were taken over in early 1986. There is also a nine-month contribution from Kaiser Cement, an American company bought for $200m last January.

The profit figures, on turnover up 55 per cent to £6.68bn (£4.31bn),were slightly ahead of analysts' expectations and the shares closed up 1p at 123p. The tax charge was £169m (£104m), diluted earnings per share were up 31 per cent at 14p (10.7p) and the final dividend goes up 40 per *cent to 3p (2.14padjusted)* making a total of 4.4p (3.19p adjusted).

Since the year end Hanson –which yesterday changed its name from Hanson Trust – has completed the acquisition of Kidde, a diversified US conglomerate, for $1.7bn. It did not spell out yesterday its plans for Kidde, beyond saying that 1988 would see the business restructured and merged with Hanson.

In the UK, Hanson reported that all its *divisions* had increased profits, with overall trading profits rising to £407m (£227m). The tobacco and food companies acquired with Imperial had shown higher sales, trading profits and returns on capital.

The consumer division increased its trading profits to £207m (£94m), helped by Imperial Tobacco, while British Ever Ready reported record profits and trading at Allders department stores was buoyant.

Building products produced trading profits of £73m (£62m), with London Brick and Butterley Brick benefitting from the housing boom. Demand *exceeded* capacity and stocks fell. The industrial division produced trading profits of £85m (£49m), while food produced £42m (£22m).

In the US, the group produced an 18 per cent increase in operating profit, to £220m (£187m). Its consumer division recorded trading profits of £44m (£42m), with Smith-Corona, the typewriter business acquired with SCM, increasing its leading market share through sales of a new portable word processor and other *products*.

Building products, which includes Kaiser Cement, produced trading profits of £74m (£53m), while the industrial division made £81m (£78m), with SCM chemicals reporting substantial increases in sales and profits. Food made trading profits of £21m (£14m).

The profits total includes a £114m contribution (£44m) from net interest, property and other income, *less central expenses*, which would include interest income on the disposal of businesses such as Courage, the UK brewer acquired by Hanson as part of the Imperial takeover and sold on to Elders IXL of Australia.

See Lex

Acquisition helps Coalite advance 22% to £17.5m

BOOSTED BY the acquisition a year ago of Hargreaves Group, and by improved performances from most of its existing activities, **Coalite Group** lifted pretax profits 22 per cent in the half year to September 30.

Turnover for the Derbyshire-based solid fuel, oil and chemical distribution group, rose by 60 per *cent* from £182.47m to £291.85m and the *pre-tax* result came out at £17.51m (£14.41m).

An increased *interim* dividend *of 2.5p (2.25p)* is being paid. Earnings for the half year were 11.45p (10.73p) per share.

Mr Eric Varley, the chairman and a former Labour Energy and Industry Secretary, said the results fully justified theconfidence he expressed in his March statement. For the full year, he said, the results would as always depend on the weather and level of consumer demand.

The company had again put a great deal of effort into improving *the efficiency of the* smokeless fuel production processes. *That enabled the price of "Coalite" to be held for the second* successive year. The solid fuel outlets had built up *their winter* stocks, he added.

The fuel oil operations of Charringtons and Hargreaves had been successfully integrated, but the UK market for oil products had been difficult, with a corresponding adverse effect on profitability.

In addition, Dormobile's results were disappointing due to the fierce competition which currently existed in the vehicle building industry.

Several useful strategic acquisitions had been made during the year by the group as a whole, Mr Varley said. The company's policy was to invest in growth areas while maintaining the solid fuel activities. Accordingly, Rexco was acquired in October to add to its market share and range of products.

The pre-tax result was after interest and other income received of £3.49m (£4.44m). Tax took £6.3m (£5.18m).

● comment

Nothing would warm investors to Coalite so much as an early *deep freeze. Yet severe gyrations* in the financial environment seem not to affect this smokeless *fuel producer. With all its business* UK based, Coalite has no foreign exchange risk exposure; demand for its products has little to do with the economic temperature; and a £17m pile of cash makes it fairly impervious to market moods. A 8½ per cent price rise for "Coalite" starting on January 1, should boost second half earning. It is for all these reasons that Coalite's traditional discount to the market has narrowed over the past six weeks, and why it should continue to be a relatively safe *haven. The company appears on* course for pre-tax profits near *£50m for the year, given a sufficiently chilly winter. With a prospective* price/earnings ratio of 9.5, the upside potential may be *limited; but so too is the downside.*

How MIM-Britannia is manning the defences

Nikki Tait on manoeuvres at Drayton trusts

THESE are touchy times for investment *trusts*, as *discounts* widen to reflect the underlying equity risk which offers even greater predatory opportunities for the brave of heart. No more so than at the Devonshire Square headquarters of **MIM-Britannia**.

For a start, its largest fund - Drayton Japan, with a market value of £191m - has come under direct threat. A New Jersey-based investment parternership, AJS Partners, took its stake in the fund to more than 5 per cent *in early* November and,about two weeks ago, approached the fund managers with a view to *eliminating the discount. According* to AJS, it was willing to make a recommended offer of 98 per cent of net asset value if certain conditions - apart from the recommendation - were met; the trust would then have been liquidated. Unitisation was also raised as a possibility.

Not surprisingly, the approach met a firm rebuff. AJS subsequently added to its stake - rather *overenthusiastically* at one stage, obliging it to sell down some voting preference stock in order to meet *Panel* rules on permitted share purchases - and currently holds 18.5 per cent of the votes.

Yesterday, however, a new player arrived on the scene. Vanderbilt Assets N.V., declared a 35.4 per cent interest in the preference stock - giving it 6.3 per cent of the votes. But the identity of the newcomer is some*thing of a mystery. AJS says its* knows nothing about the new investor; MIM comments like*wise, adding only that it believes* the company is "some sort of mutual fund" and probably offshore. What MIM does confirm is that Vanderbilt's holding almost certainly represents the stock which AJS was forced to sell.

But whatever the identity of Vanderbilt, MIM's reaction to the situation has already been robust - not to say controversial. Just over 10 per cent of preference stock was already in the safe hands of another MIM-managed fund,Drayton Consolidated. And after the abortive discussions with AJS, MIM itself acquired a near 10 per cent interest in Drayton Japan's ordinary shares, followed by 13.97 per cent interest in the preference. That took its own voting stake to just under 11 per cent, with Drayton Con*solidated adding a further 1.8 per* cent.

In fact, so desperate does the scramble for stock appear to have become that Drayton Japan itself posted a letter to holders of the preference stock on the November 26, maintaining that the stock "has traded for some time at considerably less than par value" and "that the income return on the stock has been *substantially lower than the* return which could have been obtained in a building society, bank or equivalent." MIM, says the letter, would be willing to buy the stock at par value - £1. A reply-paid envelope was contained.

The letter makes no mention of the AJS talks, nor of either MIM's or AJS's purchasing in the market. *Last night MIM* maintained firmly that its offer to stockholders was a fair one - *given that the stock had been* trading at about one-third of par value before AJS appeared - and *that it is, after all, facing aggressive* tactics from the Americans.

In addition to the Drayton Japan situation, MIM has also edged up a stake in its next largest fund, Drayton Consolidated. This week it disclosed the purchase of 325,000 ordinary shares - plus small amounts of preference stocks - *taking its total* holding to 6.573m ordinary, or 18.34 per cent.

Not surprisingly, the action has invoked parallels with the situation *a year ago at another* fund management group, GT. GT found its Berry Trust on the *recieving end of a bid from the* Merchant Navy Pension Fund, and a concert party - including other *GT-managed investment* trusts - rode to the rescue, snapping up a *27* per cent stake.

MIM is quick to point out an essential difference: GT's defen*sive action* involved *the use of* other trusts managed in-house, shareholders in which could - and did - complain *that* the rearguard action was not in their interests. In this case, maintains MIM, only the fund management group's money is involved. And protecting funds under management is arguably in shareholders' interest.

Blue Circle ups stake in Birmid Qualcast

By Mike Smith

Birmid Qualcast, the lawnmower and boiler group,is expected to hold talks early next week with Blue Circle, the cement company which is considering a takeover bid for it.

Blue Circle said yesterday that it had bought a further 1.2m shares in Birmid to take its stake to 6.7m shares, or 9.3 per cent. None have been bought for more than 306p.

Blue Circle's advisers, Barings, said the group would probably buy more shares in Birmid if they became available at that price.

Mr Alan Emson, Birmid finance director, said yesterday that his company is prepared to listen to any proposals at next week's talks but he re-iterated the group's wish to remain independent.

"At the end of the day they could come in with an offer which was so high that we would have to recommend it to shareholders - that applies to any company. But there is a long way to go before we get to that stage."

Bass lifts profits by 18% to £365m and looks for more

BY LISA WOOD

Bass, brewing and leisure group, yesterday reported a pretax profit of £365m for the year *to September 30*, an increase of 17.6 per cent on the previous year.

Earnings per share for the group at 71.6p rose by 20.3 per cent with a proposed dividend of 14.75p (12.8p) making a total of 19.55p (17p) for the year.

Extraordinary profits of £24.2m came from the sale of Bass's 21 per cent stake in York*shire Television* and the sale of the UK Pontins holiday camps.

Mr Ian Prosser, chairman of Bass, *said: "We are delighted* with the results. It has been a very good year." He said the setback to world *stock markets*, while affecting the group's share price, had not affected the underlying prospects for *Bass's* businesses. "We have confidence in the year ahead and look forward to further progress."

Brewing, drinks and pub retailing contributed a trading profit of £317.9m (£265.8m) including £14.6m from the sale of assets.

Bass, with brands including Carling Black Label and Tennent's, is understood *to command* a share of about 21 per cent of the beer market, well ahead *of* competitors such as Whitbread, Allied Lyons and Grand Metropopolitan.

Mr Prosser said that Bass's *share of the market* had increased slightly, with lager sales ahead of the industry's average and the decline in ale sales less than that for the industry as a whole. A property re-evaluation, the first for seven years, gave total tangible assets *at £2.7bn (£1.5bn) with property* accounting for about £2bn.

He said Bass was continuing to concentrate on *retailing* and believed the changes in licensing laws currently being considered by Parliament would be beneficial.

The soft drinks division, where Bass holds a 50 per cent stake in Britvic Corona, was progressing well said Mr Prosser, while Hedges & Butler, the wine and spirits business, was showing an improvement in profits after the reorganisation last year.

The leisure division's *operations* contributed a trading profit of £67.8m (£57.4m) with Crest Hotels showing an "excellent performance." *Leisure retailing* businesses, including Coral Social Clubs, also had a good year although Coral Racing, which made good progress in the first half, showed no increase in profit over the previous exceptional year.

Bass, which is *now* a sizeable player in the holiday business, this year bought Horizon Travel and Wings. Mr Prosser said Horizon Travel's profit since purchase was below expectation as a *consequence* of the heavy discounting in the summer but he believed good profits could be *made in the medium to longer* term.

Bass, in a move into the international hotel business, bought 178 Holiday Inns for $475m in September from Holiday Corporation, with the bulk still to be paid for. It is understood that for every cent the dollar falls Bass saves a million pounds on the purchase price.

The group's gearing at the end of the financial year was 14 per cent which will move towards 20 per cent with the completion of the Holiday Inns acquisition.

See Lex

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding div	Total for year	Total last year
Asprey ....int	1.25	Jan 27	1.17*	-	4*
Baker Harris ....int	2.25†	Feb 26	-	-	2
Bass ....fin	14.75†	-	12.8	19.55	17
Carless, Capel ....int	1	Feb 10	1	-	2.75
Castings ....int	1.4	Jan 15	1	-	3.75
City Site ....fin	0.56	March 1	0.49	1.12	0.96
Coalite ....int	2.5	Feb 8	2.25	-	8.75
Fairline Boats ....fin	6	Jan 29	4	9	6
Hanson Trust ....fin	3	Feb 5	2.14*	4.4	3.19
Hunter Saphir§ ....int	1.35†	Jan 6	1.05	-	3.3
Jarvis Porter ....int	1.4	Jan 15	1.3	-	3.6
Johnson Matthey ..int	2.5	Feb 1	2	-	5.5
Marling Indust. ....int	1†	Jan 20	0.85	-	2.2
Mecca Leisure ....fin	2.15	Mar	-	3.65	-
M L Holdings ....int	0.6†	Apr 7	0.52	-	1.9
RHP ....fin	3.6	Feb 25	3.1	5.8	5
Royal Bk Scot. ....fin	8.1	Jan 26	6.8	12.7	10.8
Scapa ....int	2.26	Jan 22	2.1	-	6.81
600 Group ....int	2.34	Jan 18	2.34	-	5.78
Tate & Lyle ....fin	17	-	15	26	23
R W Toothill ....int	3.6	Jan 14	3.5	-	8.75
Tunstall ....fin	2.25	-	1.68	3.25	2.48

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. Unquoted stock. Third market. ♦Gross throughout.

Baker Harris up

Baker Harris Saunders, surveyor and commercial estate agent lifted turnover up 39 per cent to £2.33m and taxable profits by 36 per cent to £1.05m in the half year to end-October.

Mecca advances 80% to £14.9m

BY FIONA THOMPSON

Mecca Leisure Group yesterday announced full year profits ahead by 80 per cent to £14.9m and a £55m acquisition which will take it a step further down the planned route of reducing its dependence on bingo profits.

It is to buy two Ladbroke businesses. Astey's, with 16 catering units in South Wales and a food concession at The Tower of London, and Holidays, which operates 17 holiday villages in Devon, Cornwall and east Anglia. The two businesses made combined operating profits of £5.6m in 1986.

Mecca is to pay Ladbroke £50m in cash and issue 3m new ordinary shares. The cash element will be financed by a 2-for-7 rights issue at 140p per share to raise £29m, and a £30m loan facility.

"We wish to see our holiday centres and entertainment and catering divisions grow," said Mr Michael Guthrie, chairman and chief executive. At the time of Mecca's £95m management buyout from Grand Metropolitan in December 1985, bingo brought in well over 50 per cent of profits, a figure which had not changed much by the time the company was floated in October 1986.

The Holidays acquisition will double Mecca's market share in UK holiday centres from its present 3 per cent to 6 per cent. Astey's, with its three hotels, four restaurants with bars, one public house, one take-away restaurant and seven unlicensed restaurants, will become part of the entertainment division.

Mecca is looking this year for profits split equally between the three divisions - holidays, social clubs (bingo), and entertainment and catering.

Yesterday's figures for the year to September 30 saw turnover virtually unchanged at £128.7m. Trading profit by division was: social clubs £8.63m (£7.08m), entertainment and catering £4.3m (£4.1m), UK holiday centres £2.63m (£2.15m) and other activities £1.07m (£287,000), making a total of £16.62m, compared with £13.58m last year.

The long term trend of declining social club admissions has been reversed and converted into a 1 per cent improvement, the group said, which, with increased spending at the clubs on non-bingo activities such as snooker and food, produced the 22 per cent growth.

Entertainment and catering profits suffered from the freezing weather in January and the part-year closure for refurbishment of five nightclubs including Le Palais, Hammersmith, but a strong second half converted the 19 per cent half year shortfall to a 5 per cent rise on the year.

In the holidays division, summer occupancy levels were up 9 per cent which, with an increase in the short-break market, resulted in a 22 per cent growth.

Interest payable fell to £2.58m from £6.03m. Tax took £4.73m, against £3.20m last time. Earnings per share, excluding profits from property disposals of £859,000 (£749,000) rose to 12.2p from 9.1p. A final dividend of 2.15p was declared, which makes 3.65p for the full year.

See Lex

Scapa at £16.3m despite oil setback

A HIGH level of activity throughout the company's operating divisions lifted taxable profits of **Scapa Group**, manufacturer of specialist consumer technical products for the pulp, paper and board and offshore oil industries from £15.57m to £16.29m in the six months to end-September.

Mr Bill Goodall, chairman, said that totals had been held back by poor results from companies in the offshore oil industry and a weakening dollar - the currency had shown an average eight per cent deterioration over the period under review. Nevertheless, he expressed continued confidence despite uncertainty in financial markets.

The pre-tax outcome was achieved on turnover of £118m, up from £110m for the comparable period. After tax of £6.33m (£6.49m), extraordinary items totalling £9.81m (9m) and minorities of £151,000 (£87,000), earnings per share rose to 11.1p from 10.3p. The interim dividend is raised to 2.26p (2.1p).

The purchase of Rotunda, maker of industrial adhesive tapes, was completed last August. Scapa has also made further progress in establishing a stronger manufacturing presence in West Germany through the acquisition of Peter Villforth, maker of forming wires for paper machines and wirecloth and filters for other industries.

●comment

Scapa faced two problem patches this time, oil and the dollar. Profits from its oil business fell by £1.3m as orders completely dried up for the umbilical cords (to control well heads) made by Multiflex, acquired 18 months ago and now posting a for sale board; and the sterling/dollar fluctuations resulted in North American operating profits standing still at £9.8m - despite growing by 14 per cent in dollar terms from $13.3m to $15.1m. More than 65 per cent of Scapa's sales and profits come from North America. While not discounting the currency element in profits erosion (which looks like wiping £2.5m off full year profits after this time's £750,000), the company views it as an accounting, not a real, factor because what it sells in North America it makes there. Indeed, the US paper industry is benefiting from the low dollar by choking off imports and increasing exports. But the bottom line is what counts and Scapa's shares dropped 12p yesterday to close at 185p. Assuming £36m for the full year, that puts them on a prospective p/e of 7.5.

Casket to merge with K & F

BY NIKKI TAIT

S. Casket, the Manchester-based clothing group which has hit the acquisition trail over the past year under its new management, yesterday announced plans to merge with Kingsley and Forester Group, a larger toys, hardware and textiles business.

The merger, which has the backing of K&F directors, is being effected by an offer of eight Casket shares for every 11 K&F; there is no cash alterative. With Casket down 15p to 68p yesterday, it valued each K&F at 49½p and the entire group at just under £15m. The K&F directors, who speak for 38 per cent of the equity, have given irrevocable undertakings to accept, and will end up with about 18 per cent of the combined group.

Casket has seen a substantial change of direction since Mr Vy Menon and Mr Harry Turpin, two former David Dixon directors, joined as joint managing director and non-executive director respectively. According to Mr Menon, the initial aim was to add some manufacturing capcity to Casket's import business and broaden the range. It has already made three small acquisitions: Armatex, S. Lockley (hoisery), and the business and name of Pakamac.

The K&F operations range from the manufacture and distribution of household textiles, housewares, clothing and toys. Earlier this year it also acquired Comfy Quilts, a domestic bedding business. According to Mr Menon, the bulk of K&F's customers are either mail-order companies or wholesale, while its own customer base is largely retail chains or multiples. Casket, therefore, saw opportunities for extending both its own, and Kingsley's, sales. The two companies were geographically close and Casket said it did not plan to dispose of any K&F operations.

K&F only came to the market in 1985, when it reversed into ailing garment importer K. O. Boardman. In 1986, pre-tax profits slipped from £2m to £1.75m, but the company reported a 29 per cent increase to £1.11m in the first half of 1987 on sales of £31.2m. Casket, meanwhile, saw profits of £1.61m before tax on sales of £30.29m in the 12 months to end-June.

Coats and Martin seek buy-in powers

By Richard Tomkins

Coats Viyella, Britain's largest textile company, and **Martin Ford**, the men's wear retailer and property developer, yesterday joined the growing band of companies seeking powers to buy in their own shares.

Coats will hold an extraordinary meeting on December 18 at which it will ask shareholders' permission to buy in up to 78.2m ordinary shares, representing 14.9 per cent of its issued equity.

Martin Ford will seek powers at an EGM on December 23 to buy in up to 3m of its ordinary shares, representing 10.6 per cent of the total in issue.

Asprey jumps 17.5%

THE next three months of trading will be crucial, the board of Asprey said yesterday when the company reported a 17.5 per cent increase in pre-tax profits from £6.3m to £7.4m for the six months to September 30 1987.

The USM-quoted jeweller increased turnover to £29.56m (£27.68m) and declared an interim dividend of 1.25p (1.17p).

● comment

These were unexpectedly good first-half figures from Asprey and took the shares up 5p to 253p in spite of the cautious statement. Asprey faces at least three obvious hazards. The decline in the value of the dollar will affect translation of the contribution from the New York store. It will also reduce the spending power of US tourists in the UK. And the market crash could reduce the spending power of Asprey's customers in London, New York and Switzerland. The counter-argument is that since the US store is still contributing a loss, the dollar's decline is a boon. To the second and third, it is that Asprey's customers are so rich that even a fairly large decline in their wealth will not stop them buying. If the first-half performance is any guide, the full-year will produce £15m, putting the shares on a prospective p/e multiple of 13.

RHP up 24% -£74m sale

BY DAVID WALLER

RHP, the ball bearings and electrical engineering company, which yesterday surprised the City with its plans to dispose of its ball bearings business, also announced full year pre-tax profits up by 24 per cent from £17.67m to £21.89m.

The ball bearing operations are being sold for £73.5m to a new company controlled by a consortium of institutional investors. RHP plans to use the proceeds to make acquisitions designed to complement its existing activities in the electrical and electronics industries. With net cash in its balance sheet at the end of the year for the first time, RHP could afford to spend £100m and has already outlined a "shopping-basket" of possible purchases.

Following a $21m (£12m) acquisition of a US fire-detection company in late October, RHP has not ruled out the purchase of a large US company. One such deal was shelved because of the market crash.

Historically the core of the group, ball bearings accounted for over half of group turnover £177.59m in the year to October, and nearly 45 per cent of operating profits published yesterday.

Yesterday's figures reveal that bearings' contribution to total operating profits of £22.57m were down from £10.53m in 1986 to £10.15m, despite a £2.66m increase in turnover to £93.20m. By contrast, profits from the electrical businesses and fasteners grew by 37 per cent to £12.31m, on turnover up from £73.57m to £84.39m.

Total turnover was £177.59m (£164.11m). Earnings per share rose from 15.8p to 18p, and the dividend for the full year was up 16 per cent 5.8p.

● Comment

Bearings have always acted as a dampener on RHP's rating, however successful the company has been in teasing growth out the traditional business against a background of static demand and furious competition. The danger now is that a big acquisition in the US will have an equally discouraging effect, given investors' current aversion to companies with large exposure to the US economy. But such a move is probably the only way for the new RHP to maintain growth, given that the company so dominates its chosen niches that even now performance is flatter than yesterday's figures suggest: the increase in profits from the non-bearings business is much flattered by the fact that Graviner made only a four months contribution to 1986 profits. With three months from bearings and the interest on the proceeds, RHP should make £23m this year, putting the shares on a fair prospective p/e of 10.

Royal Bank Scotland up 7%

BY RICHARD WATERS

Royal Bank of Scotland yesterday reported a 6.9 per cent rise in pre-tax profits to £197.2m for the year to end-September.

Profit growth was held back by provisions of £77m against loans to rescheduling countries, though this was partly made up by the sale of two London properties, which netted £34.2m, and a pensions contribution holiday of £10m.

Earnings per share rose 8.2 per cent to 45p. The final dividend is increased to 8.1p making a total of 12.7p for the year (10.8p).

The bank's figures were helped by lower than expected provisions against loans other than those connected with reschedulings. The second half saw extra provisions of £30.1m to add to the first half's £48.9m, compared with a total £89.4m in the previous year.

Total provisions connected with reschedulings now amounted to £105m, or 32 per cent of the bank's total exposure, said Sir Michael. The exposure is equivalent to just 1.7 per cent of the bank's total assets.

●comment

Royal Bank of Scotland is insulated from most of the ravages of crashing stock markets and crippling third world loans faced by other clearing banks.

Its main exposure to the securities markets is in the form of loans to market participants, rather than an equity stake in a securities firm. And its potential third world losses are hardly going to give its managers sleepless nights. It shouldn't be forgotten, though, that third world loans, while accounting for less than 2 per cent of total assets, were responsible for nearly 50 per cent of total bad debt provisions.

While generally free of these problems, the bank relied heavilly last year on one-offs. The sale of offices in Old Broad Street and Lombard Street is an unrepeatable bonus thrown up by the rationalisation of its operations following the 1985 merger with Williams and Glyns. And given the fall in share prices the holiday from pension fund contributions taken in the second half of the year may well be called off before 1989, when it is due to end anyway.

The bank now needs to pursue its objectives - of expanding its range of services both at home and overseas - with more vigour, to reinforce what has been an indifferent performance. Cash in hand at the year end of over £5bn suggests that there may be acquisitions ahead to further its cause.

Public Works Loan Board rates

Effective December 2

Years	Quota loans repaid by EIP†	Quota loans repaid A††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid A††	Non-quota loans A* repaid at maturity§
1			8¾			9½
Over 1 up to 2	8¾	8¾	8¾	9¾	9¾	9½
Over 2 up to 3	8¾	8¾	8⅞	9¾	9¾	9⅝
Over 3 up to 4	8¾	8¾	8⅞	9¾	9¾	9⅝
Over 4 up to 5	8⅞	8⅞	9	9⅞	9⅞	9¾
Over 5 up to 6	8⅞	8⅞	9	9⅞	9⅞	9½
Over 6 up to 7	8⅞	8⅞	9⅛	9⅞	9⅞	9⅞
Over 7 up to 8	8⅞	9	9⅛	9⅞	9½	9⅞
Over 8 up to 9	9	9	9¼	9½	9½	10
Over 9 up to 10	9	9	9½	9½	9½	10
Over 10 up to 15	9¼	9½	9½	9¾	10	10
Over 15 up to 25	9½	9½	9½	10	10	10
Over 25	9½	9½	9½	10	10	10

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

UK COMPANY NEWS

Tate & Lyle moves up 13% to top £90m mark

BY CLAY HARRIS

HIGHER margins on sugar production and refining enabled **Tate & Lyle** to increase pre-tax profits by 12.9 per cent to £92m in the year to September 26 despite a smaller contribution from the group's service and industrial businesses.

Profit from sweetener production rose by 61 per cent to £50.6m (£31.4m), with the contribution from UK sugar refining alone more than trebling to £14.1m (£4.1m).

A £17.2m extraordinary credit reflected the profit on the sale of Tate's 15 per cent stake in S&W Berisford less provisions for Third World debts.

Tate said yesterday that it and Johnson & Johnson, the US drugs and consumer products group, would begin shortly to build plants to make sucralose, a calorie-free sugar-based sweetener, even though it has not received regulatory approval in any country.

The joint venture partners aim to be ready to meet demand as soon as sucralose is cleared. Tate expects approval from the US, Canada and the UK late next year or early in 1989.

Mr Neil Shaw, chairman, said that Tate was continuing to press its case with the UK Government and the European Community that cane refiners be allowed higher margins.

In the US, Tate's move into beet refining put it in the position to benefit whatever legislation emerged from Congress.

The pre-tax increase from £81.85m was achieved on turnover ahead by 3.4 per cent to £1.7bn (£1.65bn).

Apart from the UK, sugar refining produced pre-tax profits of £13.7m (£10.1m) in the US, £12.4m (£9.1m) in Canada, and £5m (£3.7m) from other areas. Cereal sweeteners and starches accounted for £5.4m (£4.4m).

Other contributions were: sugar trading £4m (£5.7m); molasses and speciality feeds £11.3m (£9.6m); malting £2m (£1.1m); automotive, industrial and construction products £12.5m (£12.8m); packing and distribution £2.5m (£5m); agribusiness £2.1m (£3.5m); bulk liquid storage £4.7m (£2.9m); and insurance £4.4m (£3.6m).

Turnover from sugar production and refining increased to £865.2m (£811.1m), cereal sweeteners and starches to £102.6m (£71.8m), and automotive, industrial and construction products to £119.1m (£97.9m). Sales fell, however, in processing and trading at £655.4m (£675.4m) and service businesses, from which there were two disposals, at £61m (£63.3m).

Tate's effective tax rate fell from 40 per cent to 30.5 per cent.

Earnings per share rose by 39 per cent to 75.6p (57.3p). The final dividend of 17p (15p) makes a total of 26p (23p).

• comment

By hedging more than half this year's expected US earnings with an option at $1.67 (92p), Tate allowed analysts to lift pre-tax forecasts just past £100m for the current year. On basic earnings of 85p, this puts the shares on a prospective p/e of 7.6, still below the sector but with barely a grain of sucralose yet in the price. Tate is keeping detailed plans for the sweetener firmly stoppered in an opaque bottle, which is fair enough considering the high stakes. But waves of excitement not far short of Aids-drug mania are likely to jiggle the share price as regulatory approval approaches and speculation grows about the breadth of applications. In its core business, Tate is insulated as a group against a sharp rise in the world sugar price - although Canada would suffer. Since Berisford needs a steady flow of cash from British Sugar, it is unlikely to declare a new UK price war, and Tate should be able to build on this year's encouraging result.

Plan to develop dockland site

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Tate & Lyle is to cease its packaging operations on a 22-acre freehold site, just south of the Royal Victoria Dock in London Docklands, opening the way to comprehensive redevelopment.

Mr James Kerr Muir, the finance director, signalled a change in the group's property policy when he said yesterday that instead of disposing of the land, Tate & Lyle would retain an equity stake in any development project.

The group has so far no clear idea what will be done with the land, beyond the fact that any scheme in which it is involved would be influenced by the new economic circumstances created by the expected start to three major schemes for Royal Docks redevelopment.

Tate & Lyle will probably seek a joint venture partner. "We are aware of the potential. We will be getting somebody on board," said Mr Kerr Muir.

The potential of the Docklands area is emphasised with the announcement by Conran Roche today that it will be placing with the London Docklands Development Corporation a planning application for 160,000 square feet of new offices at Butlers Wharf on the south side of the Thames.

In another development, Tarmac has started construction of a £30m office building for National Leasing and Financing and City Merchant Developers at Thames Quay on the Isle of Dogs.

Acquisition and lower interest boosts Carless

BY LUCY KELLAWAY

Carless, Capel & Leonard, UK oil independent, yesterday announced a four-fold increase in pre-tax profits to £2.3m, boosted by a lower interest charge and by a first contribution from Century Power and Light, in which Carless bought a minority stake in May. The increase marked a fall in operating profits from £2.1m to £1.2m, which the company blamed on difficult market conditions.

Carless said that in the first half it had started to carry out its plan to broaden the activities of the company, and that further opportunities were "being actively pursued". In oil production and marketing, conditions have been difficult, the company said, with upstream profits hit by the fall in the dollar and downstream profits by the glut on product markets. However, it said that all parts of the group were now doing better in improved markets.

Profits during the period from oil and gas in the US fell from £2m to £357,000, while oil procution in the UK recovered with the oil price to £633,000 from a loss of £74,000. Downtream profits were almost unchanged at £700,000, with a better performance by solvents, offset by worse results from fuel marketing and distribution.

The pre-tax contribution from Century was £1.5m for the four months since the acquisition.

Earnings per share increased ten times to 1p. The interim dividend has been held at 1p.

• comment

When a bear market coincides with a falling dollar and a fresh bout of Opec unease, one might expect Carless' broad collection of oil production and marketing assets to come into its own. However, diversification is no magic key to success, and Carless' underlying fall in profits show that several things can go wrong at once, even given a 50 per cent recovery in the oil price. Admittedly, Carless cannot be held responsible for either the halt in US development drilling while LTV took protection under Chapter 11, nor for the disheartening glut in most product markets, yet it is hard not to feel discouraged when all the increase in profits comes from its two recent big deals. The Century minority is having such a fattening effect on earnings, that Carless need not despair that Calor shows no signs of wanting to get rid of its stake, while its ever strenthening balance sheets puts it in a strong position to continue its search for new corporate recruits to the group.

Castings

Castings lifted pre-tax profits by 47 per cent, from £603,000 to £888,000, in the six months to end-September 1987.

The interim dividend is stepped up to 1.4p (1p), to be paid from earnings ahead from 3.8p to 5.61p per 10p share.

BAe shares

On December 1, 1987, a total of 30.1m(12.02 per cent) of **British Aerospace's** ordinary shares were foreign held as defined in the company's Articles of Asociation. The maximum permitted proportion is 15 per cent.

Moss Trust ahead

Pre-tax profits at **Moss Trust** increased by 30 per cent from £170,000 to £221,000 in the year to August 31 1987.

Turnover in the current year was running 40 per cent higher - in the year under review it rose from £8.82m to £9.72m - and profits should be significantly higher, said the directors.

Suter buyout

Suter, the engineering conglomerate, is to sell Mitchell Cotts Environmental Control, manufacturer of fork lift trucks and cab conditioners, to a management buyout team.

The consideration is £100,000 but Suter borrowings will be reduced by more than £784,00 as a result of the deal

Johnson Matthey advances by 41%

BY HEATHER FARMBOROUGH

Johnson Matthey yesterday reported a 41 per cent increase in pre-tax profits to £30.5m for the six months to September 301987. Of the £8.9m increase, £4.2m came from a reduction in net interest.

Over the last three years, the company has reduced debt by £400m, while gearing is 31 per cent. Mr Brian Birkenhead, finance director, said that cash flow was strong despite higher metal prices. Capital expenditure was £9m in the first half.

Earnings per share rose by 40 per cent from 8.9p to 12.5p on a fully diluted basis. The company is paying an interim dividend of 2.5p (2p).

Operating profit rose to £32.1m, an increase of 17 per cent which was achieved mainly in the materials and precious metals divisions.

The materials technology division made operating profits of £9.7m, an increase of 24 per cent. Demand was strong for precious metal fabrication and products for biomedical, electronic and chemical applications.

Precious metals increased operating profits by 35 per cent to £12.0m. Sales of platinum declined in North America, but this was offset by growth in Japan.

Mr Joe Stevenson, operations director, said that there was unlikely to be a significant increase in production of platinum group metals until 1992 at the earliest and that the company didnot foresee a price war.

The catalytic systems division experienced a 4 per cent downturn in operating profits to £6.6m, due partly to price competition in the US and the effect of the weakening dollar on the conversion of dollar earnings.

Operating profits in the colours and printing division were unchanged from £3.8m.

Construction is underway for a new autocatalyst plant in Brussels, which is due to be operational in a year's time, to help car manufacturers meet stricter pollution controls in the EC from October 1988.

• comment

Johnson Matthey has come far from the position three years ago, when to quote Mr Eugene Anderson, chief executive, it "was a company in some difficulty." Its reward is a halving in share price from £4 prior to the October crash. Yesterday the company was at pains to dispel fears of an imminent platinum price war. It also argued hard that car makers will have to introduce vehicle exhaust catalyts on small and medium cars to comply with EC directive guidelines on pollution. However, this is by no means certain. Growth in the European market for catalysts may not compensate for the decline in the US. The rate of profit increase has slowed, and is likely to continue doing so, but it is hardly commonplace to report a 41 per cent improvement. Johnson Matthey is poised to move out of the recovery phase into a growth one. With year-end profits of at least £60m in sight, in better markets it would be worth tucking away.

Toothill lower

R W Toothill, furniture manufacturer, reported pre-tax profits, of £120,000 to £84,000 for the six months to September 30 1987.

The interim dividend is raised from 3.5p to 3.6p net.

Tunstall nears £6m with help of security side

BY PHILIP COGGAN

Tunstall Group, an emergency communications equipment manufacturer, increased pre-tax profits by 27 per cent in the year to September 30.

The group has a 4.9 per cent stake in Sound Diffusion, the electric equipment leasing group and is interested in making a bid for the Brighton-based company.

Tunstall was awaiting delivery yesterday of documents outlining Sound Diffusion's detailed financial position. It welcomes the board changes which have already led to the resignation of Mr Paul Stonor, the Sound Diffusion chairman, and looks forward to negotiating with the new board.

Tunstall's pre-tax profits improvement to £5.84m (£4.59m) came with the help of a move into profitability by the security division, which manufactures intruder alarms. However, the Lifeline division, which sells portable personal alarms to the private sector, only managed to break even, despite a campaign by Help the Aged to boost sales of the product.

In April, the company acquired Ademco which operates trade distribution centres under the Selectalarm logo. However, the majority of the group's profits still come from Tunstall Telecom, which sells personal alarm systems for use in council accommodation and sheltered housing.

Turnover was £29.5m (£25.1m). After taxation of £2.44m (£1.99m), earnings per share were 21.4p (16.3p). The final dividend is being set at 2.25p (1.68p), making a total of 3.25p (2.48p).

• comment

Tunstall has successfully exploited its market niche - selling personal alarms to public authorities caring for the elderly. But it now has a 70 per cent market share in that sector and realistically it has to look to sales to sheltered housing and to private individuals (via Lifeline) for the thrust of future growth. Lifeline should finally become profitable this year and the security division has turned the corner; the market is looking for £7.2m for the group this year, putting the shares, up 10p to 315p yesterday, on a prospective p/e of 10.5. However, a lot may depend on the Sound Diffusion bid; some investors may think it better for Tunstall to leave the leasing group well alone rather than risk overpaying for a company which has already shown it is an auditor's nightmare.

Company Notices

UK COMPANY NEWS

Restructured 600 Group ahead at six months

THE **600 Group**, which has almost completed its restructuring via the disposal or closure of its main loss-making or low return businesses, raised its profits from a depressed £568,000 to £1.45m pre-tax over the 28 weeks to October 10.

Furthermore, Sir Jeffrey Benson, the chairman, said he was confident of improved performance in the short term but warned that in the medium and longer term there were two issues of significance:

● The effect on the capital goods market worldwide created by uncertainty in the financial markets and, in particular;

● The continuing fall in the value of the US dollar to sterling which affects both sales and margins in the group's most important markets.

Turnover for the opening half year declined to £59m (£95m) but trading profits pushed ahead from £531,000 to £1.85m – the group is engaged in the manufacture of machine tools, materials handling and metal recovery.

The pre-tax result was struck after taking account of an exceptional provision of £659,000, mainly for redundancies, a surplus from the sale of properties amounting to £211,000 (£118,000).

On a net basis earnings worked through at 3.2p (losses 0.4p). The interim dividend is a same-again 2.34p.

A low demand for machine tools limited the recovery in the first half but to counter this the group introduced a new range of CNC lathes at the recent International Machine Tool Exhibition in Milan and had been successful in winning certain large contracts for machine tools.

These would enable production resources to be used more effectively and were expected to improve performance significantly in the second half.

● comment

Having sold off its scrap metal division, its gear shaping machine interests and various other businesses the 600 Group is left with a machine tool division with uninspiring prospects as its core business. In the second half it will be helped by a lucrative £5m contract which has higher than average margins and in the longer term the company will be protected by its variable speed CNC lathe, which operates in niche markets where larger, overseas companies are unlikely to compete. Overall, however, the chances of big volume growths look slim in the face of relatively low spending by UK manufacturers on machine tools. Lower borrowings will help improve full-year pre-tax profits to about £5.5m. With tax payments likely to be nil because of the opportunity of offsetting ACT against corporation tax the prospective p/e is about 6.5. The tax charge will return to about 30 per cent next year, however, and if that rate was applied this year the multiple would be more than 9. A yield of about 10 per cent protects the shares against a big slide but, until the company diversifies away from its core, there is limited opportunity for price growth.

ML expands by 53% to £1.7m first half

WITH FURTHER benefits coming in from last year's Slingsby acquisition and FL Douglas, acquired in April, **M L Holdings**, manufacturer and supplier of electronic, electrical and mechanical systems for defence related industries, has kept up its rate of growth in the six months to September 30 with pre-tax profits rising 53 per cent from £1.1m to £1.68m.

Turnover for the period was 13 per cent up at £35.28m (£31.21m) reflecting an improvement from 3.5 to 4.8 per cent in margins, pre-tax to sales. Earnings are up from an adjusted 2.48p to 3.35p after tax of £589,000 (£386,000) and the interim dividend raised from the equivalent of 0.52p to 0.6p per 5p ordinary.

In the second half some benefit will be seen from Wallop Holdings which was acquired in September for £7.6m. The directors say significant orders have been won since the acquisition and prospects look good. Prospects of Slingsby Aviation are excellent.

M L Engineering (Plymouth) has made good progress in its contracts in Australia an Greece and particularly on the Waterloo area resignaling scheme for British Rail. The directors say that the home market has been weak and order entry disappointing, but prospects for overseas contracts and Channel Tunnel related work are encouraging.

Elsewhere, M L Components had a record first half with strong order entry, sales and profits.

Mr Ralph Price is to retire as chairman at the end of the year and will be suceeded by Sir Peter Horseley on January 1.

Irish Wire doubled to £563,000

Irish Wire Products, Limerick-based fastening manufacturer, continued the recovery shown in July's preliminary statement. Although turnover fell to £2.9m from a restated £3.4m, pre-tax profits for the six months to September more-than-doubled to £563,000.

The directors attributed the strong performance to better trading in domestic markets and improved operating margins at the Tiger Tim Products subsidiary, acquired earlier in the year.

Tax took £162,000 (£138,000), leaving earnings per share of 5.6p compared with an adjusted 2.6p last time.

Sims Catering

Sims Catering Butchers is to acquire Calvin Gunner Holdings, a Bedford-based multi-species meat processor. The deal will include the outstanding minority interest in Calvin International not already owned by Calvin Gunner Holdings.

Sims is to pay for Calvin by the issue of 3.9m new Sims shares. At yesterday's 395p Sims suspended share price, this values the acquisition at £15.4m.

L & M 'quietly alters' Articles

By Nick Bunker

London & Manchester, the life assurance group, has quietly altered its Articles of Association to allow it to flush out more easily bidders or corporate raiders who secretly build up stakes in the company.

In future, L&M will have the right to disenfranchise any nominee shareholder which fails to disclose within 28 days the beneficial ownership of shares which it controls. Its board said this would be "a valuable protection in the current climate."

Mr David Jubb, group chief executive, said the change in the articles was "quite a normal thing." It was approved at an extraordinary general meeting in London two days ago.

No publicity was given to the meeting's result, other than a brief announcement to the Stock Exchange on Wednesday afternoon.

Another bid-related resolution, which was also passed, says that in the event of a takeover members of L&M's employee and executive share option schemes can swap their share option rights for rights in a scheme run by the acquiring company.

The resolutions were solidly backed by L&M's two biggest shareholders, Sun Alliance, the composite insurer, and Britannic Assurance, which like L&M is a home service life company.

Britannic, with about seven per cent of L&M, has a long-standing reputation for backing incumbent managements in contested takeovers. Sun Alliance, with about 10 per cent, is well-known for its hostility to the idea of foreign bids for British insurers.

In a November 9 letter to shareholders, L&M said the use of nominee accounts could "lead to abuse". It was sometimes difficult, time-consuming and expensive to enforce a 1985 Companies Act Section 212 notice requiring disclosure of beneficial ownership.

The resolution adopted on Wednesday allows L&M to suspend the nominee's voting rights if it fails to comply with a Section 212 notice within four weeks.

Jarvis Porter rises but signals warning

BY MAGGIE URRY

INTERIM profits from **Jarvis Porter Group** bounced back sharply from the poor showing in the first half of last year, with some help from acquisitions.

The label printing and packaging group's pre-tax profits in the six months to end-August were nearly 42 per cent up at £1.35m (£955,000).

Chairman Mr Paul Jarvis yesterday warned that "although the trend to higher profits in the second half of the year should be maintained, it was unlikely to match the growth of the first half."

Not all is well, though, with profits from conventional labels hit by intense competition and a lower volume of orders. Customers are demanding smaller runs and shorter lead times.

In response Jarvis Porter is considering capital investment, totalling perhaps £1m, in machinery capable of greater flexibility in production.

Other parts of the business produced strong growth in profits with trading described as buoyant. The two recent acquisitions, which together cost £2m, contributed £2.5m to turnover of £15.78m, up from £11.18m the previous year, and £176,000 to operating profits of £1.39m, which compared with £891,000.

Spreckley & Evans, bought in January, comfortably covered the financing costs of its acquisition, while R B Macmillan, bought in April, made a modest contribution having been loss-making in its last year.

Development costs for the Mono-Web labelling project of £87,000 (£57,000) were treated as exceptional but will no longer count as such since the system is beginning to produce revenues.

Benefits are also expected from a planned £400,000 purchase of an eight-colour machine for the flexible packaging division, coming on stream in January, and a £300,000 investment in computer-aided design equipment for the self-adhesive label plant.

Net interest payable of £31,000 compares with a receivable figure of £64,000. After tax of £486,000 (£283,000), earnings per share were 5.2p (4.1p), a rise of 26.8 per cent. The interim dividend was set at 1.4p (1.3p).

● comment

Jarvis Porter has regained much of the respect lost when last year's profits fell. But now there is concern about the 30 per cent of the business in conventional labels. Here the customers are all-powerful and if stringent times are in prospect for consumer spending the likes of Jarvis Porter can expect to come under pressure. They can do little to pass on the pain, so must invest to improve efficiency as Jarvis Porter is doing. Elsewhere there are encourgaing signs that the Mono-Web system will produce profits in the next financial year, and that the pay-back time on the other investments will be short. Pre-tax profits should reach £3m (£2.41m). With the shares up 5p to 120p yesterday the prospective p/e of little over 10 is not demanding in the context of the sector.

Paragon changes tack

BY PHILIP COGGAN

THE STOCK market flotation of **Paragon Communications**, the public relations consultancy, illustrates how the crash has forced companies to scale down their new issue expectations.

Paragon had originally planned to join the Unlisted Securities Market but Black Monday forced it to postpone the float, and in the interim, it has limited its ambitions. It had hoped to be capitalised at between £7m-£8m rather than the £4.3m it is valued at in the present issue.

Curiously, Paragon is now joining the main market, although it would rank as small even on the USM. Originally, the company had planned to place just 15 per cent of the equity but one of the founders, Mr John Collard, is now leaving the group and selling his shares. Accordingly, Paragon is placing 25 per cent of its equity, meeting the main market's requirements.

The bulk of the 1.36m shares being placed by Smith New Court are in fact being sold by existing shareholders and the company will net only £250,000 from the issue. At the placing prtice of 80p, the shares are on a prospective p/e of just over 9, on the basis of the 1987 pre-tax profits forecast of £680,000.

If Paragon has a virtue, it is not the ability to paraphrase. Its corporate philosophy turns to 22 words, namely "to build enduring, mutually profitable relationships with our clients by representing the best in public relations through a commitment to results-oriented excellence"

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- London and Overseas Freighters, Merrydown Wine, Priest Marians, Rolfe and Nolan Computer Services, Select Appointments, Tiphook. Lexicon, Schroder Global Trust.

FUTURE DATES

Interims-	
Berkeley Group	Dec 7
Brathwaite	Dec 8
Brown and Tawse	Dec 14
Scottish and Newcastle	Dec 16
Stewart and Wight	Dec 10
Finals-	
Albion	Dec 9
Crystalate	Dec 11
Grand Metropolitan	Dec 17
Johnson & Firth Brown	Dec 16
National Westminster Bk	Feb 23
Redfearn	Dec 8
Stakis	Dec 9
Westland	Dec 10

APPOINTMENTS

Tate & Lyle senior post

Mr James Kerr Muir, group finance director, TATE & LYLE, has been appointed managing director of the UK division. He succeeds **Mr John Mitchell** who will be leaving at the end of 1987 to pursue other activities. Pending the appointment of a new finance director, Mr Kerr Muir will retain overall responsibility for group finance.

★

WHITBREAD has appointed **Mr Miles Templeman** to the new post of group marketing director from March 1. He is managing director of Thresher, Whitbread's off licence chain. He will join Whitbread's executive committee, and will become a non-executive director of Whitbread Trading.

★

FENCHURCH INSURANCE BROKERS has appointed **Mr Alan Culverhouse** managing director of Fenchurch Life and Pensions Consultants. He will also be appointed to the board of Fenchurch Insurance Brokers.

★

RONALD MARTIN GROOME has appointed **Mr Colin Wardale** as group financial director. He was a senior manager with Arthur Andersen & Co. Other appointments include **Mr Richard Rosenberg** as joint managing director of giftware subsidiary RMS International; he was financial director. **Miss Andrea Conrad** also becomes joint managing director of RMS; she was purchasing director. **Mr Tyrone Farber** becomes purchasing director of RMS.

★

MEGGITT HOLDINGS has appointed **Mr Jeffrey Marston** as managing director of Avica, a member of the aerospace and defence division. He was operations director.

★

Mr Peter Warry will be joining the board of NORCROS on January 1 as director responsible for the construction and window companies. He is director for planning and business development at Plessey Telecoms.

★

Mr Donald Lyon, joint managing director of H.Turner & Son, has been appointed a regional director of the Yorkshire and Humberside regional board of LLOYDS BANK.

★

Mr N.J. Robson has been elected chairman of the London commitee of the OTTOMAN BANK following the death of **Sir John Colville. Mr A.K. Stewart-Roberts** has been elected deputy chairman.

★

The following have been appointed assistant directors of HAMBROS BANK: **Mr K.F. Buckle, Mr N.J. Holden, Mr A. Howard, Mr T.E. Humphreys, Miss S.R. Mitchell, Mr P.A. Stewart**, and **Mr J.F. Tuke**.

Mr John W.H. Lawson has been appointed a director of COSTAIN INTERNATIONAL, responsible for operations management.

★

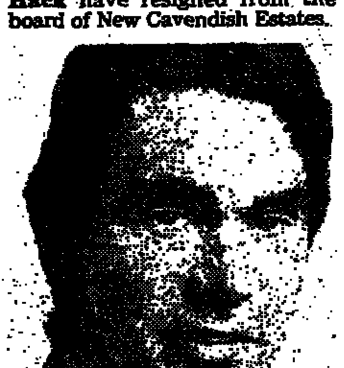
Mr Philip Ward has been appointed managing director of NORTH WEST PLASTICS, a Bunzl company. He was appointed sales and marketing director of Bunzl Consumer in April, a post he still holds. He is also managing director of two other companies within Bunzl Consumer - Cosipet of Crewkerne and Toolmak of Worsley.

★

Mr Daniel McInerney has become chairman of McINERNEY PROPERTIES taking over from his brother **Mr Ambrose McInerney** who had held the office since the company became a quoted public company in 1971 and who now becomes deputy chairman. Mr Dan McInerney became chief executive in 1981 and now hands over this role to **Mr Dick Chenery** who joined the group in September 1986.

★

Following the closing of the mandatory cash offer by Noro-Buckfield NV for NEW CAVENDISH ESTATES, **Mr Henk Schep** has been appointed chairman, and **Mr Peter Jones** and **Mr Raymond Barraclough** join the board. **Mr Garry Carter, Mr Dennis Vickery** and **Mr Robert Hack** have resigned from the board of New Cavendish Estates.



Mr Miles Templeman, group marketing director, Whitbread

Mr Anthony Cavendish will become chairman of CONTSHIP UK following the retirement of **Mr Urs Studelli** in January. He is an advisor to the Overland Trust Bank, Lugano, and director of various bank subsidiaries.

Managing director of Berol

Mr Jonathan Bowman has been appointed managing director of BEROL (formerly the Eagle Pencil Co.). He succeeds **Mr Ron Carter** who has retired. Mr. Bowman was marketing director of Graphic and Display Products.

★

Mr George F.A. Carpenter (retail) and **Mr Ian M. Panto** (marketing) have been appointed to the board of MARSHALL GROUP.

★

Mr Tom Goodearl has been appointed general manager and director of JANE'S INFORMATION SERVICES, while remaining European vice-president of DMS Inc. **Mr Kit Phillips** becomes special projects manager for the Jane's Group.

★

Mr Gordon Channon has been appointed to the board of WATNEY MANN & TRUMAN BREWERS as information systems director. He was managing director of Grand Metropolitan Information Services. **Dr A.H. Button** is retiring as deputy managing director - technical. He will remain as vice-chairman of Ruddles Brewery, and as a non-executive director of WMTB, Watney Mann National Sales, and Holsten Distributors.

★

Mr Chester Wallace has been appointed executive director of MANAGEMENT HORIZONS from December 7. He is merchandising director of Argyll Foods.

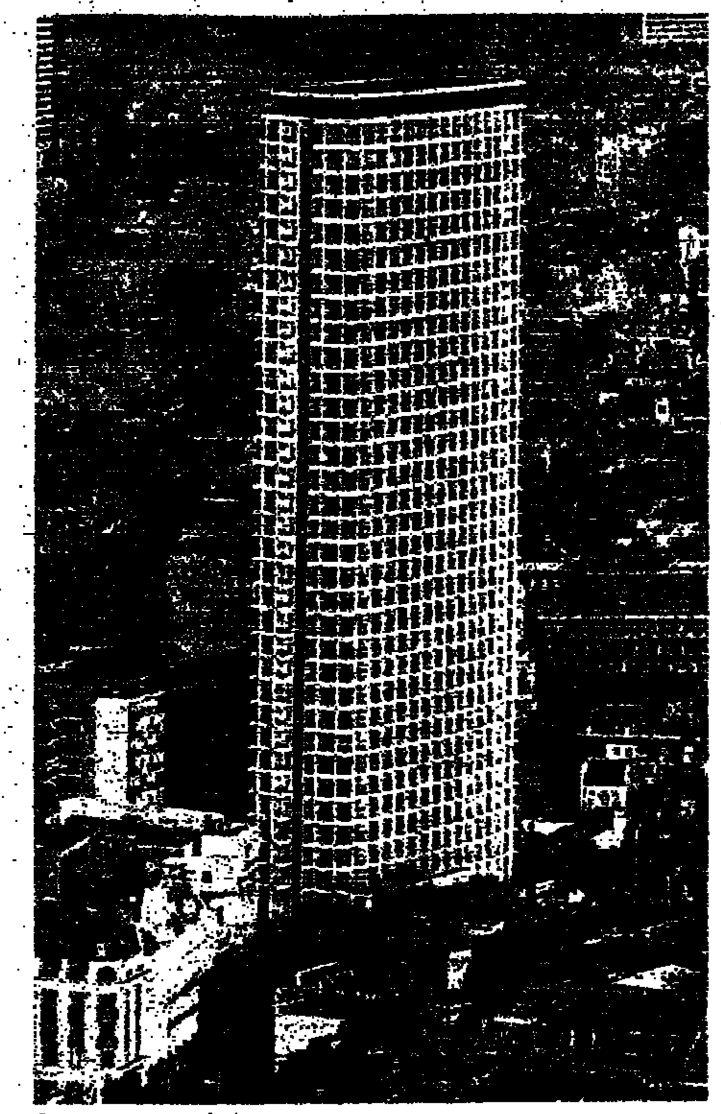
★

Mr Russell Edey, a director of N.M. Rothschild & Sons, has been appointed a non-executive director of FKI BABCOCK.

★

FRANCHISE INVESTORS has appointed **Mr Michael Fower** as investment and finance director.

THE PROPERTY MARKET BY PAUL CHEESERIGHT



Centrepoint, London, part of Oldham Estate - valuers did not agree on what the estate was worth.

Embattled valuers are now overtaken

VALUERS are in trouble. It is not so much that they are falling to do their job in line with the professional standards that have been laid down for them. Rather it is that they have been overtaken by the conditions on the property market.

If a portfolio of properties is valued by surveyors at £100m and then sold for £120m, then it is at least worth asking what was the worth of the valuation in the first place. If Bernard Thorpe and Debenham Tewson and Chinnocks value the Oldham Estate portfolio and come to radically different figures, then that might suggest there is something wrong somewhere.

The issue is not arcane. The valuations of property assets that are contained in, say, the listing particulars for a new issue are germane to the price of that issue.

The valuations are part of the worth of a company subject to a bid. And, for property companies, now that they are trading at discount to their net asset value, property valuations are a vital influence on the share price.

So the figures that the valuers come up with and the fashion in which those figures are presented are important to the investment community. Significant enough, in fact, for the Royal Institution of Chartered Surveyors, already worried about some of the property valuation information in the privatisation issues, to be both looking at its own guidelines and having talks with the Stock Exchange about the use of valuations in listing documents.

There are problems with the guidelines. They were drawn up in the wake of the 1973-74 crash by the newly established Assets Valuation Standards Committee, chaired at that time by Mr Norman Bowie of Jones Lang Wootton. Valuations had often appeared to be so fancy that they became discredited.

To win back respect for the process, to try to bring a consistency of approach, surveyors were provided with guidelines that had as their basis the valuation of a property either on its:

* open market value, having regard "to open market transactions in similar property", as the guidelines say, or:
* depreciated replacement cost, where the evidence of comparative transactions does not exist.

The "open market value" is the key thing here, but the pace of change on the market has left the technique flawed - not so much the concept of it, but the limits of its application under the guidelines.

The valuation works on the assumption that the property asset will continue to be owned by a company. The figure reached by the surveyor is the cost to the company of replacing the asset if it lost it. What it does not contain is a value on a property if that property should be purchased by another company.

This is significant if a portfolio of properties can be sold above the valuation price, if an isolated property asset may be of special interest to a company which owns the site next door. As Mr Bowie has noted, it ignores the value of a property as a financial asset which can be manipulated and it does not take into account the value of that property to a buying company prepared to manage it actively with a view to eventual re-sale.

The argument is that shareholders need, in the interests of their own protection, to be given not only the basic valuation but the sales value of a portfolio as a whole. "Unless this is done, minority shareholders continue to lose out and owners of portfolios of property will sell too cheaply," Mr Bowie commented.

There is a case for more information. That is one problem with the RICS Assets Valuations Standards Committee guidelines. But linked to that there is also a case for a greater level of disclosure of the assumptions behind the valuation that is presented in a company document.

What is not cited is the comparative evidence to which the guidelines refer. The presentation of bald figures, saying a property is worth this or that, is not under current practice supported by any indication of the evidence used in making the judgment. And the valuations are at the end of the day judgments. This is implicit in the way the valuations have to be done.

If, for example, explained Paul Orchard-Lisle of Healey and Baker, "you own an Oxford Street shop, you multiply the rent received by a factor and arrive at a capital value. But if the valuer perceives the rent to be beneath what could be got on the open market, he adds in a plus factor.

"The factor in both cases is a judgment. The more volatile the income, the lower the multiplier. The risk is determined by the perception of how rents are likely to rise. So there is a lot of scope for reading the future.

"Take the City of London - do you extend the rental growth or put it on a plateau? Is there a higher or lower multiplier?" So, concluded Mr Orchard-Lisle, "you can get different answers."

And there were, of course, "different answers" in the Oldham Estate case, which has been investigated by the RICS Assets Valuation Standards Committee. One surveyor came up with a valuation 25.8 per cent higher than the other.

As the RICS circumspectly put it, although the "valuations were properly carried out in accordance with the instructions received by the respective firms, and on the information available to them," both of these "were, in certain respects dissimilar."

The lesson here is the obvious one that applies to all valuations - the answer depends on the question. But as the RICS will admit, valuation is more of an art than a science.

The problems of a shifting market

THE Stock Exchange and the Royal Institution of Chartered Surveyors assets valuation standards committee have been talking on and off for 10 years about the presentation of property valuation information in listing documents and company accounts.

The latest round has been running for about six months without any sign of agreement.

The RICS argues that improvements in the valuation field - that is the application of its guidelines - were crucial in re-establishing confidence in property investment after the 1973-74 crash. Now Mr Michael Clark, RICS president, says there is "a reluctance on the part of the Stock Exchange and other regulatory authorities to police and maintain the standards which we defined for them as a defence against any recurrence of those earlier problems."

But the Stock Exchange is not unduly sympathetic to the idea that the valuation information provided to the investing public has to meet RICS guidelines. It is not obligatory to have in listing particulars a historical valuation of property. The Stock Exchange takes the view that the wider implications of investor protection are more important than the minutiae of property valuation assessments.

In effect, the Stock Exchange is saying to the RICS - you have your guidelines, you police them. The counter to that is that the policing only takes place after the publication of the documents and so is too late. The RICS contends that if the documents could be checked before publication, there would be a stronger element of investor protection. There could be a contribution from surveyors on this question to the Stock Exchange quotations committee.

Although the RICS standards are widely accepted, they are only guidelines. If it becomes obvious that the standards have not been applied, the transgressors can be asked to explain themselves to the assets valuation standards committee.

The committee, though, has neither the resources nor the will to act as an arbiter of the actual values that emerge from any valuation. And it would be doubtful whether it would be given the relevant commercial information to do that.

What the committee does is to examine the way in which a valuation has been carried out to see whether the general principles and methodology meet the guidelines.

Appointments

ITC loses court battle over documents

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE INTERNATIONAL Tin Council has lost the final round of its legal battle to prevent its internal documents, or copies of them, being used as evidence in the litigation arising out of the Council's collapse into insolvency in October, 1985.

Five Law Lords yesterday ruled unanimously that disputed categories of documents emanating from the ITC were not covered by the protection from disclosure enjoyed by those remaining in its archives.

The matter will now return to the High Court where the judge trying the tin case in which the issue arose will have to decide on the admissibility of particular documents in the light of the Law Lords' ruling.

The ruling has implications for other international organisations which, like the ITC, have a presence in the UK.

The ITC had intervened in an action in which two Shearson Lehman companies are suing two London tin traders - J. H. Rayner (Mincing Lane) and Maclaine Watson - for a total of more than £61m under tin sale contracts, and also challenging the validity of the London Metal Exchange's rule which imposed a fixed settlement price on outstanding tin contracts following the ITC's collapse.

Various of the parties have obtained ITC documents or copy documents that they want to use as evidence. The ITC contended that all the material was part of its archives and thus protected from disclosure without its consent under the 1972 International Tin Council (Privileges and Immunities) Order.

The Law Lords dismissed the ITC's appeal against the Court of Appeal's decision in July that documents lost their protection when distributed to the ITC's members - the UK, 22 other sovereign states and the European Community.

A cross-appeal by Rayner, Maclaine Watson and the LME against the Appeal Court's ruling that copies of documents made without the ITC's consent were protected from disclosure was allowed.

Lord Bridge said that the Law Lords had been troubled by the question why "this insolvent organisation" should have gone to the expense of intervening in the Shearson action.

The answer appeared to be, he said, that, although the ITC feared no detriment from the use of its documents in that action, it had felt obliged to intervene to protect its position in other pending litigation.

Lord Bridge was referring to claims by bank and broker creditors of the ITC which include allegations of fraudulent trading and negligent mismanagement by the ITC, founded in part on ITC documents.

The documents in issue included those supplied to third parties, with or without the ITC's consent, by, among others, the ITC's members. The ITC argued that all documents relating to its business, which originated within the ITC, still belonged to it, even when in the possession of its members.

Lord Bridge said that it was clear from the 1972 Order that once a document had been communicated by the ITC to a member it ceased to belong to the ITC and only the member could claim protection in respect of it.

Other categories of documents included those supplied to a third party by an officer or employee of the ITC, one published in a House of Commons select committee report, a copy document in the House of Lords library, and a document released in the US under the Freedom of Information Act.

Lord Bridge said that at the heart of the ITC's claim to inviolability in respect of those documents lay the question of authority. He held that a document communicated to a third party by an ITC officer or employee, with the actual or ostensible authority of the ITC, no longer belonged to the ITC and hence no longer enjoyed inviolability as part of the ITC's archives.

Canadian tantalum mine to reopen

BY DAVID OWEN IN TORONTO

TANTALUM Mining Corp of Canada is to resume production of tantalum concentrates at its Bernic Lake mine in Manitoba by the middle of next year in response to a significant improvement in demand.

Operations at the mine, the largest of its kind in North America, were suspended in 1982 because of poor market conditions.

The company, owned 37.5 per cent by Hudson Mining & Smelting, 37.5 per cent by Cabot Corporation and 25 per cent by the Manitoba Government, intends to spend some C$4.7m to refurbish the mine and mill.

It says it has secured several long term contracts for tantalum concentrates beginning in mid-1988.

Tantalum, a hard white metal which has high resistance to both heat and acid, is used in the manufacture of capacitors for electronic equipment including computers and turbines and in the production of hi-tech metals and alloys used in such things as jet engines and space vehicles.

The price of tantalum reached a peak $95 a lb in 1981 which encouraged the use of substitute materials.

By January 1983 the price had slumped to under $25 a lb, trading as low as $14 a lb at one time. Several tantalum mines closed as a result.

For the past two years, however, the metal has remained steady at about $25 and now the large stocks which had been overhanging the market have been whittled away.

In 1986 tantalum production is estimated to have reached just over 1m lbs and Mr Noel Cook of Wogen Resources, the rare metals dealer, suggests that output this year might be about 2m lbs.

Peru bars Cargill from coffee trade

By Barbarar Durr in Lima

PERU HAS prohibited Cargill, the US food, chemical and grain shipping conglomerate, from exporting coffee.

Under new coffee marketing regulations, foreign companies have been banned from exporting Peru's coffee. Cargill's wholly-owned Peruvian subsidiaries, Cargill Amazonica and Cargill Peru, were the only foreign companies involved in coffee exporting, company and US diplomatic officials said.

"The measure is directed against Cargill," said Mr. Miguel Figueroa, Cargill division chief in Lima, said. The move is perceived as a sign of Government hostility to foreign corporations. It comes despite recent statements by Government officials soliciting foreign investment.

"This is no way to do business," Mr. Figueroa added.

The Foreign Trade Institute has ruled that only national companies can export coffee.

Cocoa producers agree on support

BY DAVID BLACKWELL

COCOA PRODUCING countries reached agreement at the meeting of the International Cocoa Organisation in London yesterday on a package of measures designed to support the price of cocoa, which has touched five-year lows this week.

Delegates said the package included a cut in the floor and ceiling levels of the price support mechanism, or buffer stock - but the size of the cut was unspecified. The plan also looks at other methods of improving prices, including ways of further increasing cocoa consumption and of curbing imports from countries not belonging to the organisation.

Prices on the London Fox (Futures and Options Exchange) initially rose by as much as £10 a tonne as news arrived of the producers' nearness to agreement. However, by the close the three-month contract was up only £1 at £1,094 a tonne.

Analysts believe the producers' package will be unacceptable to the consumers. Both producers and consumers were meeting last night at a full councilmeeting of the cocoa organisation.

Dealers said the market was still very cautious about the eventual outcome of the talks. Even if buffer stock buying were restarted the manager would be able to buy only a further 75,000 tonnes, to reach the 250,000 tonne maximum permitted holding.

Some doubt whether the buffer stock manager has sufficient funding to buy 75,000 tonnes, given the fact that the organisation is owed about $45m in outstanding levies.

The meeting this week marks the members third attempt since June to thrash out a solution to the problems of reintroducing buffer stock activity.

Drought deals blow to Indonesia's rice hopes

John Murray Brown on a setback to one of the Suharto regime's proudest achievements

BULOG, Indonesia's food logistics agency, conceded this week that rice production would fall short of targets, increasing the likelihood of imports next year. General Bustanil Arifin, Bulog's head, described the current drought as "worse than in 1982", when 767,000 hectares were affected.

The Agriculture Ministry had earlier predicted this year's rice output at 27.2m tons, but western agronomists feel the real figure may be closer to 25m tons. That would be insufficient to satisfy the country's 170m population, which is growing at an annual rate of 2.3 per cent. Local prices have risen by as much as 10 per cent in the last month. Meanwhile, because of the lack of rain, many farmers in Java, the main growing area, are up to 2 months late in planting next year's crop, which will be harvested in April.

Bulog is currently at the centre of a debate over the question of rice self-sufficiency which is seen as one of the main achievements of President Suharto's 20 years in power.

For the past 15 years the agency has managed to hold rice prices level in real terms, entering the market like a classical intervention board to support ceiling and floor prices for the country's main staple. Its logistics operation, which has its roots in the war of independence against the dutch colonialists, has played a key role in pushing production and achieving price stability, an imperative for a government which remembers only too well the food shortages of 1972-73.

Mr Achmad Affandi, the Agriculture Minister, commented recently: "rice is a political social and economic commodity and as such is my top priority."

Bulog is now coming under strong from the world bank, however. At a time of fiscal and monetary austerity its operation is seen as costly and in many ways counterproductive. Its debt is now put at us dollars 1.5bn, mainly financed by state bank loans at subsidised rates of interest. Annual storage costs are put at between $50 and $100 a tonne, with the stockpile now at around 2.2m tons.

In addition Bulog has been subsidising fertiliser and pesticide use, at a cost of 407bn rupiah (£140m) in 1986-87. The Indonesian rice farmer applies on average 30 kg of fertiliser per hectare, a rate well above that prevailing in Thailand and the Philippines. Notwithstanding the environmental damage this causes, the World Bank in its latest confidential report suggests the policy "may actually reduce production levels."

General Arifin is expected to retire in March, and a question mark now hangs over the future of Bulog and the Co-operative Ministry, also under his wing, which plays a key role in the agency's market activities. The Bank is urging more private sector involvement in rice storage, and calling for more flexible price policy by Bulog, which currently handles about 18 per cent of all rice traded.

Opposition to such proposals is likely to be fierce not least from within Bulog, which enjoys lucrative import monopolies for a variety of commodities including rice. Besides, Bulog is seen to play a key role in providing an estimated 1.5m tons of rice every year to so-called budget groups, like the armed-forces and civil servants, a perk which the Government will find hard to abolish.

"The World Bank's proposals fly in the face of everything we know about agricultural policies in developing countries," said one official.

Self-sufficiency now looks unsustainable. Already 95 per cent of paddy is down to high yield rice varieties. With rice imports likely in coming years, Bulog could find its role increased as it seeks to protect the consumer from fluctuations in world prices.

With little more than 6 per cent of world rice production traded the market is very thin and prices volatile. Indonesian officials have no doubt watched with concern the current sharp rise in prices, following the drought which has affected all Asia's major rice producers.

Stronger crop demand forecast

By Nancy Dunne in Washington

THE US Department of Agriculture is predicting higher prices, stronger demand and smaller world crop supplies for 1988 partly as a result of bad weather and reduced planting.

According to Mr James Donald, head of USDA's World Agriculture Outlook Board, demand for both crop and animal products will benefit from continued economic expansion and population growth. Crop prices will respond to tightening supplies, while expanded animal product supplies will also pressure prices.

Speaking at the annual USDA outlook conference, Mr Donald issued the following projections for 1987-88:

- **Global crop output will decline about 4 per cent with production down in the US, the Soviet Union, Australia, Canada and China.**
- **Feed grain production will be down by 4 per cent to 5 per cent, primarily reflecting 15 per cent lower acreage in the US.**
- **World wheat production will be down by more than 5 per cent, as lower prices reduce acreage in Canada and Australia and adverse weather cut the Soviet crop.**
- **Rice output will be down by over 5 per cent, with drought-reduced yields in India, Thailand and much of South and Southeast Asia.**
- **World oilseed production will rise by 4 per cent, in response to increased US cottonseed output, more rapeseed production in the EC and, possibly, larger soyabean crops in South America.**
- **The global cotton crop is up 10 per cent, reflecting expanded acreage in the US and China.**

Another speaker at the conference, Mr Robert Barry, a sugar analyst with the USDA, forecast a 1.5 per cent drop in world sugar production to 101.2mm tonnes for 1987-88. World consumption would rise by 1.5 per cent to about 101.7m tonnes, leading to a possible 10 per cent reduction in world sugar stocks which could decline to about 3m tonnes.

Mr Barry urged caution on higher price expectations "before we get swept away with visions of sugarplums and Saturnalia." "When prices rise, supply response tends to be quick. When prices fall, response is weak," he said.

Oil firm despite Opec disarray

BY LUCY KELLAWAY

OIL PRICES pushed higher yesterday despite further signs from Opec members that agreement on production and prices would bedifficult to reach at next week's meeting in Vienna. In London the price of Brent crude for January delivery moved as high as $18.15 cents a barrel, 30 cents higher the Wednesday's close.

Traders seemed at a loss to suggest any fundamental reason for the rise, which they attributed to dealers closing out positions before the Opec meeting. "There is a feeling that Opec just might surprise us all, and nobody wants to be caught out," one trader said.

In New York the price of West Texas Intermediate had risen by 25 cents to $18.81 a barrel by mid-afternoon. It was towed up by heating oil prices, which touched a 22-month high of 57.7 cents a gallon in New York harbour. Prices were boosted by cold weather and an unusually low level of stocks.

The split between Opec members on prices appeared to widen yesterday with reports that all Arab members of the cartel - apart from Iran - are stiffening their resolve to block any increase in prices from the present level of $18 a barrel. Sheik Ali Khalifa, oil minister of Kuwait said that five Gulf Arab members, Kuwait, Saudi Arabia, Iraq, Qatar and the United Arab Emirates had all vowed to resist any rise in the prices.

- Kuwait said yesterday that its main oil exporting terminal, which was closed in October following a missile attack, had been reopened.

Little support for changes at LME

BY KENNETH GOODING, MINING CORRESPONDENT

IT NOW seems unlikely that the London Metal Exchange will move to all-day ring trading, said Mr Christopher Green, the chairman, yesterday.

Nor do most LME members want a change to monthly instead of daily prompts (delivery dates).

He was speaking after a private meeting at which the LME discussed possible changes in contracts and trading practices.

Mr Green stressed it was not intended for decisions to be taken at the meeting and, indeed, "no definitive view was formed on any of the issues. No collective views were formed".

However, as members were fairly evenly split on the question of all-day ring trading "it probably means nothing will change."

When discussing prompt dates, many members, particularly those prominent in the physical market, said a key advantage of the LME was its system of daily settlement dates and it would be ill-advised to give this up.

As for the two other key issues, Mr Green said that there was considerable backing for changing the ring trading currency from sterling to dollars but this was by no means unanimous.

Most members agreed that such a move should not be made just for convenience.

Discussion about the restart of the tin contract was "surprisingly tame", he added, and opinion fairly evenly divided.

Issues raised at yesterday's meeting will be considered by the LME board next Wednesday. But Mr Green said that if any changes are to be made it will not be until there has been full discussion with the members and their international trade clients.

Chicago exchange seeks London delivery for gold

BY DEBORAH HARGREAVES IN CHICAGO

IN A desperate attempt to polish up the image of its gold futures contract, the Chicago Mercantile Exchange wants to change the contract's delivery point to London.

The change has a strong sense of deja vu about, however, it since it was only in August that the CME removed London as a destination from its fledgling contract to replace it with New York and Wilmington, Del.

It was ostensibly in response to requests from the gold trading community that the CME began listing US delivery points. But since it did, it appears the ever-fickle gold traders have abandonned the contract. In spite of an incentive programme that pays traders $1 for each contract traded, daily volume has dwindled to a mere 200 to 300 lots.

But the CME points out when it was listing the London-delivered contract in its first couple of months of trading, volume was as high as 1,500 a day. It will now have to wait another 45 days to see if those heights can be regained while the Commodity Futures Trading Commission decides whether to approve the change.

The exchange has also applied to change its gold options contract, which was due to start up this week, to deliver in London.

The CME could have saved itself all this trouble if it had stuck with London in the first place. That contract did not even have to be approved before it was launched in June this year as it used to trade at the CME before being delisted in June 1985.

Price tables

WE APOLOGISE to our readers for the omission of most of the London commodities tables from our early edition yesterday. This was due to a computer fault.

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER PRICES fell again yesterday on the London Metal Exchange for the sixth consecutive trading day. Since Thursday last week the price of cash Grade A copper has fallen from £1,561 a tonne to close yesterday at £1,477.50. Traders said the market has been subjected to aggressive Far Eastern and commission house profit-taking after prices reached record levels last week. But there was no absence of buyers at the lower prices in view of the tightness in supply and low level of stocks likely to continue into the first quarter of next year. Aluminium prices also fell sharplyyesterday, but after a late rally the cash price of high grade (99.7 per cent purity) closed $15 down at $1,655. Sugar prices fell in London, tracking a similar fall in New York and a late rally in the dollar against sterling, dealers said.

SPOT MARKETS

Crude oil (per barrel FOB December)		+ or -
Dubai	$16.65-6.70z	+0.10
Brent Blend	$17.80-7.95	+0.175
W.T.I.(1 pm est)	$18.80-8.85z	+0.25
Oil products (NWE prompt delivery per tonne CIF)		**+ or -**
Premium Gasoline	$180-182	
Gas Oil	$163-164	+1
Heavy Fuel Oil	$81-82	+0.5
Naphtha	154-156	+1
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$489	-1.75
Silver (per troy oz)♣	713c	+14
Platinum (per troy oz)	$514.25	-1.50
Palladium (per troy oz)	$124.50	-2.00
Aluminium (free market)	$1650	+5
Copper (US Producer)	123¾-29¾c	+1.375
Lead (US Producer)	42c	
Nickel (free market)	306c	+2
Tin (European free market)	£3837.50	-22.50
Tin (Kuala Lumpur market)	17.07r	-0.05
Tin (New York)	321c	-1
Zinc (Euro. Prod. Price)	$880	
Zinc (US Prime Western)	44.375c	
Cattle (live weight)†	104.52p	+0.91*
Sheep (dead weight)†	203.34p	-5.37*
Pigs (live weight)†	73.12p	-0.28*
London daily sugar (raw)	$203.60w	-0.20
London daily sugar (white)	$209.50w	-0.50
Tate and Lyle export price	£217.50	-2.00
Barley (English feed)	£110.00	
Maize (US No. 3 yellow)	£133.00	
Wheat (US Dark Northern)	£90.50	
Rubber (spot)¶	62.50p	-0.50
Rubber (Jan)¶	64.00p	-0.50
Rubber (Feb)¶	64.25p	-0.50
Rubber (KL RSS No 1 Jan)	267.50m	+0.50
Coconut oil (Philippines)§	$519z	
Palm Oil (Malaysian)§	$390	-5
Copra (Philippines)§	$335	+5
Soyabeans (US)	£145	
Cotton "A" index	78.20c	+0.30
Woollops (64s Super)	482p	

[illegible]

COCOA £/tonne

	Close	Previous	High/Low
Dec	1064	1058	1084 1035
Mar	1094	1093	1102 1070
May	1113	1110	1122 1090
Jly	1133	1132	1142 1110
Sep	1152	1149	1159 1128
Dec	1176	1174	1183 1155
Mar	1201	1198	1202 1180

Turnover: 8681 (2864) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for December 2: 1415.89 (1431.60) .10 day average for December 3: 1438.63 (1440.77).

COFFEE £/tonne

	Close	Previous	High/Low
Jan	1228	1222	1230 1215
Mar	1254	1247	1253 1239
May	1268	1267	1270 1258
Jly	1283	1288	1288 1277
Sep	1302	1300	1300 1292
Nov	1315	1317	1311 1310
Jan	1335	1360	

Turnover: 1538 (3790 lots of 5 tonnes
ICO indicator prices (US cents per pound) for December 1: Comp. daily 115.60 (115.94); 15 day average 116.14 (116.19).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Mar	179.80	181.80	182.60 179.40
May	179.80	181.60	182.20 179.60
Aug	180.00	181.80	182.40 179.80
Oct	181.00	183.00	183.60 181.80
Dec	183.00	184.80	
Mar	187.00	188.80	188.60 186.80
White	**Close**	**Previous**	**High/Low**
Mar	212.20	214.00	214.00 211.20
May	216.00	217.50	226.50 215.40
Aug	221.40	224.00	223.50 221.00
Oct	221.00	224.00	223.00 221.90
Dec	222.00	226.00	221.50 221.50
Mar	228.00	232.00	229.00 227.00
May	234.00	235.00	221.50 221.50
Aug	214.80	214.80	

Turnover: Raw 1734 (2088) lots of 50 tonnes; White 586 (927).
Paris- White (FFr per tonne): Mar 1203, May 1229, Aug 1270, Oct 1270, Dec 1280, Mar 1301.

GAS OIL $/tonne

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

GRAINS £/tonne

Wheat	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]
Barley	**Close**	**Previous**	**High/Low**
[illegible]	[illegible]	[illegible]	[illegible]

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 250 tonne
Cash	1650-60	1680-80		1640-60		
3 months	1640-50	1630-50	1660/1640	1640-50	1640-50	2,431 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 18,925 tonne
Cash	911-3	906-8		901-3		
3 months	903-4	893-5	904/892	892-3	902-3	58,782 lots
Copper, Grade A (£ per tonne)						Ring turnover 43,300 tonne
Cash	1475-80	1490-500	1440/1435	1435-40		
3 months	1298-8.5	1301-2	1301/1256	1288-70	1298-300	80,678 lots
Copper, Standard (£ per tonne)						Ring turnover 25 tonne
Cash	1375-80	1400-20	1335	1330-5		
3 months	1288-92	1280-90		1250-5		40 lots
Silver (US cents/fine ounce)						Ring turnover 10,000 ozs
Cash	698-701	695-7		690-2		
3 months	711-4	708-10	704	704-6	710-5	632 lots
Lead (£ per tonne)						Ring turnover 13,750 tonne
Cash	370-1	368-9	371/369.5	368.5-9		
3 months	348-9	347-8	350/347	348-8.5	348-9	12,480 lots
Nickel (£ per tonne)						Ring turnover 3,024 tonne
Cash	3640-5	3610-25		3610-5		
3 months	3600-5	3571-2	3605/3580	3582-5	3600-15	8,585 lots
Zinc (£ per tonne)						Ring turnover 6,400 tonne
Cash	473-4	473-5	472	472-3		
3 months	476-7	476-7	481/474.5	476-7	480-1	14,610 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	102.0	102.0	
Mar	90.0	90.0	
Apr	146.5	143.8	146.0 143.9
May	160.5	158.5	159.7 159.0
Nov	85.0	84.0	

Turnover: 402 (426) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	144.50	147.00	144.00 144.00
Apr	136.80	140.00	136.00 136.00
Jun	127.00	131.00	127.50 127.50
Aug	128.00	131.00	
Oct	128.00	131.00	
Dec	129.00	131.00	

Turnover: [illegible]

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
[illegible]	[illegible]	[illegible]	[illegible]

FRUIT AND VEGETABLES

[illegible]

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	490-490½	271½-272
Opening	488¾-489¼	269-269½
Morning fix	488.95	268.846
Afternoon fix	491.1	271.776
Day's high	491¾-492¼	
Day's low	487¼-487¾	
Coins	**$ price**	**£ equivalent**
US Eagle	504-509	279-282
Mapleleaf	504-509	279-282
Britannia	504-509	279-282
Krugerrand	489-492	271-273
1/2 Krug	254-263	140¾-145¾
1/4 Krug	128-134	69¾-74¼
Angel	501-506	277¾-280½
1/10 Angel	50-55	27¾-30½
New Sov.	[illegible]	[illegible]
Old Sov.	[illegible]	[illegible]
Noble Plat	[illegible]	[illegible]

Silver fix / LONDON METAL EXCHANGE TRADED OPTIONS

[illegible]

US MARKETS

Gold held barely steady following trade selling at the highs and local long-liquidation, but recovered after trade support was noted at the lows, reports Drexel Burnham Lambert. Silver fell on commission house selling and light sell stops, but support was seen at the lows. Platinum fell on commission house and local selling which touched off light stops. Copper was quiet, easing on local long-liquidation and light fund selling. Crude oil firmed on early trade and local buying, then fund buying before profit-taking pared gains. Cotton was dominated by locals first buying then liquidating as no headway was made. Coffee fell on continued speculative selling in the face of manufacturer scale-down buying. Cocoa was choppy on rumours from the current ICCO talks.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	488.8	488.1	492.5	487.0
Jan	490.5	490.4	0	0
Feb	493.8	493.7	498.3	491.8
Apr	498.7	499.7	504.3	498.5
Jun	505.8	505.8	510.3	503.5
Aug	512.1	512.2	516.5	512.0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Dec	503.2	516.4	0	0
Jan	506.7	518.9	519.7	501.5
Apr	515.2	528.0	529.0	510.0
Jul	524.2	537.2	528.0	521.0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz; cents/troy oz.

[illegible]

COPPER 25,000 lbs; cents/lbs

[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

[illegible]

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jan	56.45	55.67	56.70	56.05
Feb	54.95	54.37	55.40	54.75
Mar	52.10	51.82	52.70	51.95
Apr	50.00	49.75	50.40	49.80
May	48.75	48.50	49.20	48.70
Jun	48.10	47.85	48.60	48.00
Jul	47.90	47.80	48.60	47.90
Aug	49.00	48.35	49.60	49.00

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1821	1807	1840	1812
Mar	1822	1809	1850	1817
May	1851	1839	1870	1845
Jul	1879	1866	1900	1874
Sep	1910	1898	1907	1903
Dec	1945	1935	1958	1943
Mar	1975	1965	0	0
May	2005	1995	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	123.75	124.38	125.00	123.65
Mar	127.31	127.91	128.60	127.21
May	129.45	129.98	130.50	129.30
Jul	131.50	131.90	132.50	131.30
Sep	133.57	133.87	134.25	132.75
Dec	134.55	135.00	134.50	134.50
Mar	136.25	135.88	0	0
May	137.25	136.63	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	7.72	7.78	0	0
Mar	7.97	8.09	8.07	7.95
May	7.98	8.08	8.08	7.98
Jul	7.97	8.08	8.08	7.97
Oct	8.03	8.15	8.12	8.03
Jan	8.15	8.25	0	0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs

[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

[illegible]

DOW JONES (Base: December 31 1974 = 100)

[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	600/4	601/0	601/0	595/4
Mar	608/6	608/2	610/0	592/4
May	613/4	613/4	614/0	598/4
Jul	617/2	617/4	617/4	601/0
Aug	613/0	616/0	613/0	600/4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

[illegible]

SOYABEAN MEAL 100 tons; $/ton

[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

[illegible]

LIVE HOGS 30,000 lb; cents/lbs

[illegible]

PORK BELLIES 38,000 lbs; cents/lb

[illegible]

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Lower rates help dollar

THE DOLLAR recovered from a weaker start in currency markets yesterday, after news of a cut in the West German discount rate. The half point reduction had been largely discounted but most traders had preferred to square their positions in the morning. As one trader had said: "The risks of being caught on the wrong foot were too great."

Other European interest rates were cut, mostly in reaction to the West German reduction but also as an attempt to support the dollar. Mr Helmut Kohl, West German Chancellor, suggested that the move to 2½ p.c. "was a realistic contribution by West Germany to international economic cooperation."

Despite this, some dealers remained cautious, suggesting that the Bundesbank now had less to bargain with, should there be an early meeting of G7 ministers. There was also mounting concern about the slow rate of progress in finalising US budget cuts. Consequently yesterday's action failed to restore dollar confidence and some traders remained convinced that speculators would take advantage of any sustained rally by selling dollars.

The dollar closed at DM1.6595, up from an earlier low of DM1.6435 and Wednesday's close of DM1.6525 and Y132.80 compared with Y132.70. Elsewhere it finished at SFr1.3585 from SFr1.3520 and FFr5.64 from FFr5.62. On Bank of England figures, the dollar's exchange rate index rose from 95.1 to 95.4.

STERLING-Trading range against the dollar in 1987 is 1.8260 to 1.4710. November average 1.7770. Exchange rate index 75.9 against 76.1 at the opening and Wednesday night's close. The six months ago figure was 72.8.

A half point cut in UK base rates failed to stem the demand for sterling and the Bank of England was seen by some dealers intervening from time to time.

The pound was still nudging the DM3.00 level however and there was a growing conviction that a further cut in rates would not be long in coming.

The pound closed at DM2.9975 up from DM2.9950 but fell against the dollar to $1.8065 from $1.8120. It was also lower against the yen at Y240.0 from Y240.50. Elsewhere it improved to SFr2.4550 against SFr2.4500 and FFr10.1875 compared with FFr10.1825.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6400. November average 1.6809. Exchange rate index 151.1 against 146.9 six months ago.

Trading was dominated by cuts in European interest rates, in Frankfurt. Uncertainty ahead of the reduction in West Germany's discount rate had pushed the dollar down to DM1.6465 at the fixing from DM1.6545 on Wednesday.

However there was no intervention by the Bundesbank as the authorities were aware that the dollar would soon recover on news of lower interest rates.

The dollar closed at DM1.6605 up from DM1.6540.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 132.45. November average 135.90. Exchange rate index 231.1 against 222.8 six months ago.

Trading was nervous in Tokyo as the market waited to see if West Germany's discount rate would be cut. The dollar moved a little firmer against the yen to Y132.60 from Y132.45 in New York although this was still down from Thursday's Tokyo close of Y133.70.

Official intervention by the Bank of Japan was not readily detectable although some dealers suggested that relatively small dollar purchases may have been made.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.3	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1730	+1.68	+0.85	±1.5344
Danish Krone	7.85212	7.96175	+1.40	+0.57	±1.6404
German D-Mark	2.05853	2.06260	+0.20	-0.63	±1.0981
French Franc	6.90403	7.01687	+1.63	+0.80	±1.3674
Dutch Guilder	2.31943	2.32061	+0.05	-0.78	±1.5012
Irish Punt	0.768411	0.776137	+1.01	+0.18	±1.6684
Italian Lira	1483.58	1522.69	+2.64	+2.26	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 3	Latest	Previous Close
£ Spot	1.8165-1.8175	1.8195-1.8105
1 month	0.16-0.12pm	0.13-0.12pm
3 months	0.45-0.41pm	0.46-0.44pm
12 months	1.30-1.20pm	1.35-1.25pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec. 3	Previous
8.30 am	76.1	75.9
9.00 am	76.1	75.9
10.00 am	76.1	75.9
11.00 am	76.2	75.9
Noon	76.2	76.0
1.00 pm	76.1	76.0
2.00 pm	75.9	76.0
3.00 pm	75.9	76.0
4.00 pm	75.9	76.1

CURRENCY RATES

Dec 3	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.75230	0.688694
U.S Dollar	6½	1.3701	1.25067
Canadian $	8.75	-	1.64338
Austrian Sch.	3	15.8765	14.5102
Belgian Franc	7	47.3088	43.1730
Danish Krone	7½	8.71165	7.96175
Deutsche Mark	2½	2.2558	2.06260
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Dec 3	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Dec 3	£	$
[illegible]	[illegible]	[illegible]
Malaysia	4.5990-4.5905	2.5970-2.4990
Mexico	4055.60-4148.05	2250.00-2300.00
N. Zealand	2.7815-2.7865	1.5455-1.5480
Saudi Ar.	6.7640-6.7700	3.7495-3.7505
Singapore	3.6845-3.7105	2.0280-2.0300
S. Af (Cm)	3.5605-3.5765	1.9745-1.9780
S. Af (Fn)	5.3854-5.5495	2.9850-3.0770
Taiwan	53.11-53.35	29.35-29.45
U.A.E.	6.6250-6.6310	3.6725-3.6735

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Dec 3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec 3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

Dec 3	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Dec 3	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.407	0.736	1.221	97.76	4.150	1	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.297	0.536	0.889	71.16	3.021	0.72[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.452	0.817	1.356	108.5	4.608	1.11[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.423	0.764	1.267	101.4	4.306	1.03[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.981	2.874	4.769	381.9	16.21	3.90[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Unease about the longer term

REACTION TO cuts in European interest rates was muted on Liffe. The moves were widely expected and already discounted in market values.

There was a mood of unease about interest rate trends, with the short end of the market generally well bid but the longer end looking less than attractive.

Sterling's strength against the D-Mark supported hopes that another cut in UK bank base rates is not out of the question, but the longer view provided cause for concern.

Gold's move up towards $500 tends to suggest inflation may become a future problem, but the present flat interest rate yield curve does not take this into account.

This view from the floor of the Liffe market could be seen by the rise in three-month sterling deposit futures, and the retreat in long term gilt futures.

March short sterling deposits opened a little easier at 91.47, but this was the day's low, with the contract rising to a peak of 91.56, before closing at 91.53, compared with 91.48 previously.

Long term gilts for March delivery opened firmer at 121-09, but weakened to finish at 120-26, against 121-04 on Wednesday.

US Treasury bond futures received a boost from lower European interest rates, and the improvement of the dollar. Trading was quiet however, awaiting today's publication of November US unemployment data, giving the first full month's guide to economic performance since October's sharp fall in share prices.

March delivery Japanese Government bond futures opened slightly weaker on Liffe at 106.30, continuing the trend in Tokyo, where traders were said to be doubtful whether the Bundesbank would cut its discount rate.

The Bank of Japan repeated it had no plans to reduce its discount rate, but the cuts in so many European rates are likely to increase pressure for a reduction, and this pushed the contract up to close at the day's peak on Liffe of 106.65, compared with 106.38 previously.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	5.29	6.12	0.22	1.07
118	3.60	4.58	1.08	2.24
120	2.46	3.51	1.58	3.17
122	1.47	2.56	2.59	4.22
124	1.05	2.07	4.17	5.37
126	0.39	1.33	5.51	6.63
128	0.21	1.04	7.33	8.34
130	0.11	0.46	9.23	10.12

Estimated volume total, Calls 3527 Puts 2515
Previous day's open int: Calls 20423 Puts 10748

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	5.48	5.41	0.60	1.41
84	4.09	4.25	1.21	2.25
86	2.49	3.21	1.61	3.21
88	1.45	2.29	2.57	4.29
90	1.00	1.49	4.12	5.49
92	0.40	1.15	5.52	7.15
94	0.24	0.54	7.36	8.54
96	0.13	-	9.25	-

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 742 Puts 689

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	-	-	-	-
15250	9.72	-	2.02	-
15500	8.01	12.77	2.81	4.57
15750	6.49	-	3.79	-
16000	5.17	9.84	4.97	6.64
16250	4.04	-	6.34	-
16500	3.10	7.40	7.90	9.20
16750	2.33	-	9.63	-

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 47 Puts 136

LIFFE £/$ OPTIONS

Strike Price	Calls-Last				Puts-Last			
1.65	[illegible]							
1.70	[illegible]							
1.75	[illegible]							
1.80	[illegible]							
1.85	[illegible]							
1.90	[illegible]							
1.95	[illegible]							

LONDON SE £/$ OPTIONS

[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]	[illegible]

LIFFE-EUROPOLLAR OPTIONS

[illegible]	[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US TREASURY BOND FUTURES

[illegible]	[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	158.65
[illegible]	[illegible]	[illegible]	[illegible]	161.85

THREE MONTH STERLING

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX

[illegible]	[illegible]

THREE MONTH EURODOLLAR

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	92.25
[illegible]	[illegible]	[illegible]	[illegible]	92.27
[illegible]	[illegible]	[illegible]	[illegible]	92.00
[illegible]	[illegible]	[illegible]	[illegible]	91.67
[illegible]	[illegible]	[illegible]	[illegible]	91.38
[illegible]	[illegible]	[illegible]	[illegible]	91.14
[illegible]	[illegible]	[illegible]	[illegible]	90.94
[illegible]	[illegible]	[illegible]	[illegible]	90.76

US TREASURY BONDS

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	87-18
[illegible]	[illegible]	[illegible]	[illegible]	86-19
[illegible]	[illegible]	[illegible]	[illegible]	85-25

CURRENCY FUTURES

[illegible]	[illegible]

LIFFE-STERLING £25,000 $ per £

[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

[illegible]	[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]	[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Dec	0.7369	0.7427	0.7355	0.7394
Mar	0.7440	0.7501	0.7425	0.7466
Jun	0.7510	0.7570	0.7510	0.7541
Sep	-	-	-	0.7621
Dec	-	-	-	0.7709

JAPANESE YEN (IMM)

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	0.7534
[illegible]	[illegible]	[illegible]	[illegible]	0.7602
[illegible]	[illegible]	[illegible]	[illegible]	0.7670
[illegible]	[illegible]	[illegible]	[illegible]	0.7738
[illegible]	[illegible]	[illegible]	[illegible]	0.7806

DEUTSCHE MARK (IMM)

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	0.6047
[illegible]	[illegible]	[illegible]	[illegible]	0.6111
[illegible]	[illegible]	[illegible]	[illegible]	0.6172
[illegible]	[illegible]	[illegible]	[illegible]	0.6234
[illegible]	[illegible]	[illegible]	[illegible]	0.6296

THREE-MONTH EURODOLLAR (IMM)

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
Dec	234.10	234.20	234.00	233.05
Mar	234.80	235.30	234.80	233.99
Jun	-	-	-	235.30
Sep	-	-	-	238.00

MONEY MARKETS

Coordinated cuts

EUROPEAN INTEREST rates were cut in a coordinated move agreed by central banks in West Germany, France and the Netherlands. Austria, Switzerland and Belgium followed. Earlier in the day the Bank of England signalled a reduction in UK bank base rates by cutting its money market intervention rate by ½ p.c. to 8⅜ p.c.. The major British banks responded with a cut in base rates by ½ p.c. to 8½ p.c.

Three-month sterling interbank fell to 8¾-8⅝ p.c. from 8⅞-8¹³⁄₁₆ p.c.

UK clearing bank base lending rate 8½ per cent from December 4

The Bank of England initially forecast a money market shortage of £600m, but revised this to £750m at noon. Total help of £612m was provided.

Before lunch the authorities bought £110m bills outright, by way of £100m bank bills in band 1 at 8⅜ p.c.; £5m bank bills in band 2 at 8⅜ p.c.; and £5m bank bills in band 4 at 8⅜ p.c.

In the afternoon another £332m bills were purchased, through £25m Treasury bills in band 1 at 8⅜ p.c.; £302m bank bills in band 1 at 8⅜ p.c.; and £5m bank bills in band 2 at 8⅜ p.c.

Late assistance of around £170m was also provided.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £731m, with a rise in the note circulation absorbing £105m. These outweighed Exchequer transactions adding £240m to liquidity.

In Frankfurt the West German Bundesbank held its regular fortnightly council meeting, and as expected cut the discount rate by ½ p.c. to 2½ p.c. The Lombard rate was left at 4½ p.c.

In Paris the Bank of France followed the Bundesbank's move by reducing its money market intervention rate by ¼ p.c. to 7¾ p.c. This was made when the central bank injected liquidity at a securities repurchase tender.

In Amsterdam the Dutch Central Bank lowered its three main official interest rates from today, as the guilder remained slightly above the D-Mark at the top of the European Monetary System. The discount rate was cut by ¼ p.c. to 3¾ p.c.; the secured loans rate by ¼ p.c. to 4¼ p.c.; and the promissory notes rate by ¼ p.c. to 4¾ p.c. In **Vienna** the Austrian National Bank cut its discount rate by ½ p.c. to 3 p.c., and its Lombard rate by ½ p.c. to 4½ p.c.

In Zurich the Swiss National Bank announced a reduction in its discount rate by ½ p.c. to 2½ p.c. and its Lombard rate by ½ p.c. to 4 p.c.

In Brussels the Belgian National Bank cut its discount rate by ¼ p.c. to 7 p.c., and the advances rate by the same amount to 7¼ p.c.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec 3) 3 months US dollars		6 months US Dollars	
bid	offer	bid	offer
[illegible]	[illegible]	[illegible]	[illegible]

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	[illegible]
Broker loan rate	[illegible]
Fed.funds	[illegible]
Fed.funds at intervention	[illegible]

Dec 3	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Dec 3	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell); one-month [illegible] per cent; three months [illegible] per cent; Bank Bills (sell); one-month [illegible] per cent; three months [illegible] per cent; Treasury Bills: Average tender rate of discount [illegible] p.c. ECGD Fixed Rate Sterling Export Finance. Make up day NOVEMBER 30, 1987. Agreed rates for period DECEMBER 26, to JANUARY 25, 1988, Scheme II: [illegible] p.c. Scheme II & III: [illegible] p.c. Reference rate for period OCTOBER 1 to NOVEMBER 30, 1987, Scheme IV: [illegible] p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate [illegible] p.c. from DECEMBER 1, 1987: Bank Deposit Rates for sums at seven days notice [illegible] p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month [illegible] p.c.; one-three months [illegible] p.c.; three-six months [illegible] p.c.; six-nine months [illegible] p.c.; nine-12 months [illegible] p.c. Under £100,000 [illegible] p.c. from November 24. Deposits withdrawn for cash [illegible] p.c.

$ WORLD VALUE OF THE DOLLAR

BANK OF AMERICA GLOBAL TRADING ECONOMICS DEPT., LONDON

The table below gives the latest available rate of exchange for the U.S. dollar against various currencies as of Wednesday, December 2, 1987. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

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ECU=$US1.24115 SDR1=$US1.1.36088
As of December 2, at 11.00 a.m.

	3 months	6 months
Eurodollar Libor:	7⅞	7⅞
Sibor:	7⅞	7⅞

COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani	50.60	Greenland	Danish Krone	6.409	Pakistan	Pakistan Rupee	17.4937
Albania	Lek	5.6018	Grenada	E. Caribbean $	2.70	Panama	Balboa	1.00
Algeria	Dinar	4.67	Guadaloupe	Local Franc	5.648	Papua New Guinea	Kina	0.8799
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

n.a. Not available. (m) Market rate. *US dollars per National Currency unit. (a) Parallel rate. (o) Official rate. (f) Floating rate. (c) Commercial rate. (d) Freemarket. (e) Controlled. (f) Financial rate. (g) Preferential rates. (h) Non commercial rate. (i) Essential imports. (j) Exports. (k) Free market. [illegible]

For further information please contact your local branch of the Bank of America

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 88 Vol	Feb. 88 Last	May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Stock
GOLD C	$ 480	34	30	5	42	-	-	$ 490.90
GOLD C	$ 500	410	18.50 B	64	30.50	42	40	$ 490.90
GOLD C	$ 540	266	7	101	16.60	-	-	$ 490.90
GOLD P	$ 460	25	6	-	-	-	-	$ 490.90
GOLD P	$ 480	-	-	66	16	-	-	$ 490.90
		Dec. 87		Jan. 88		Feb. 88		
EOE Index C	Fl. 155	77	12	-	-	2	22	Fl. 163.47
EOE Index C	Fl. 160	63	8.50 A	18	12.10	-	-	Fl. 163.47
EOE Index C	Fl. 165	186	5.80	48	10.50	-	-	Fl. 163.47
EOE Index C	Fl. 170	133	3.50	26	9	-	-	Fl. 163.47
EOE Index C	Fl. 175	214	2.80	-	-	-	-	Fl. 163.47
EOE Index C	Fl. 180	64	1.30	508	5.90	-	-	Fl. 163.47
EOE Index C	Fl. 185	253	1.20	20	4	-	-	Fl. 163.47
EOE Index P	Fl. 155	154	3	56	8.50	8	11 A	Fl. 163.47
EOE Index P	Fl. 160	47	4.70 B	78	9.50 B	-	-	Fl. 163.47
EOE Index P	Fl. 165	130	8	58	13	1	15.60	Fl. 163.47
EOE Index P	Fl. 170	95	10	47	15.50	1	19 A	Fl. 163.47
EOE Index P	Fl. 180	92	18	63	21	-	-	Fl. 163.47
EOE Index P	Fl. 185	12	21	50	26 A	-	-	Fl. 163.47
EOE Index P	Fl. 255	50	95	20	93 A	-	-	Fl. 163.47
EOE Index P	Fl. 275	40	113.5	-	-	-	-	Fl. 163.47
£/Fl. C	Fl. 335	50	1.80	-	-	-	-	Fl. 337.43
$/Fl. C	Fl. 185	71	3.20	12	3.40	-	-	Fl. 186.90
$/Fl. C	Fl. 190	2031	1.20 A	26	2	131	2.90	Fl. 186.90
$/Fl. C	Fl. 205	-	-	30	0.40	-	-	Fl. 186.90
$/Fl. P	Fl. 180	48	0.20	151	1.40	4	2.70	Fl. 186.90
$/Fl. P	Fl. 185	2347	1.30 B	57	3.20	-	-	Fl. 186.90
$/Fl. P	Fl. 190	59	3.80	8	5	1	7.50 A	Fl. 186.90
$/Fl. P	Fl. 200	65	14 A	-	-	-	-	Fl. 186.90
$/Fl. P	Fl. 210	50	24 A	-	-	-	-	Fl. 186.90
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl. 44	213	0.70	-	-	-	-	Fl. 39.50
ABN P	Fl. 35	124	0.50	204	1.50	-	-	Fl. 39.50
AEGON C	Fl. 55	37	2.90	8	4.50 B	14	6	Fl. 53.70
AHOLD C	Fl. 60	-	-	-	-	102	10	Fl. 61.50
AHOLD P	Fl. 60	-	-	-	-	100	7.50	Fl. 61.50
AKZO C	Fl. 100	177	1.80	79	6	3	8	Fl. 86.30
AKZO P	Fl. 80	595	3.30	5	6.50	5	10	Fl. 86.30
AMEV C	Fl. 40	77	1.20	4	2.20	-	-	Fl. 34.10
AMEV P	Fl. 35	23	3 B	32	4.30 A	5	5.50	Fl. 34.10
AMRO C	Fl. 65	33	1	85	2.60	2	4.20	Fl. 57.20
AMRO P	Fl. 55	2	2 A	50	3.50	5	4	Fl. 57.20
ELSEVIER C	Fl. 40	5	1.20	67	3.50	-	-	Fl. 37
ELSEVIER P	Fl. 40	50	4.40	-	-	-	-	Fl. 37
GIST-BROC. C	Fl. 30	157	0.70	35	2.60	-	-	Fl. 26.10
HEINEKEN P	Fl. 110	25	5	-	-	-	-	Fl. 116
HOOGOVENS C	Fl. 50	45	0.30 A	-	-	-	-	Fl. 26.50
HOOGOVENS P	Fl. 27.50	3	3.50	100	5	-	-	Fl. 26.50
KLM C	Fl. 30	220	1.30	43	2.50	20	4.60	Fl. 27
KLM P	Fl. 27.50	80	2.50 B	-	-	-	-	Fl. 27
NEDLLOYD C	Fl. 120	5	5	30	9	-	-	Fl. 108
NEDLLOYD P	Fl. 110	13	9	30	14	-	-	Fl. 108
NAT. NED. C	Fl. 60	55	0.50	-	-	5	2	Fl. 46.50
NAT. NED P	Fl. 50	22	5	75	5.50	7	7	Fl. 46.50
PHILIPS C	Fl. 45	203	0.20 A	5	0.50	-	-	Fl. 28
PHILIPS P	Fl. 50	483	22.50 B	3	22.70	2	22.50 B	Fl. 28
ROYAL DUTCH C	Fl. 200	315	5.80	29	11	5	16	Fl. 193.60
ROYAL DUTCH P	Fl. 200	368	11	115	14.80 B	4	20	Fl. 193.60
UNILEVER C	Fl. 108	193	4.20	-	-	-	-	Fl. 100.50
UNILEVER P	Fl. 100	327	5.30	67	10	27	13	Fl. 100.50

TOTAL VOLUME IN CONTRACTS : 38,729

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	8½
Adam & Company	9	Citibank NA	8½	NatWestminster	8½
Allied Arab Bk	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clysedale Bank	8½	Norwich Gen. Trust	8½
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Int(UK)	9½
American Exp. Bk	8½	Consolidated Cred	9	Provincial Trust Ltd	10½
Amro Bank	8½	Co-operative Bank	*9	R. Raphael & Sons	8½
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe G'rantee	10½
ANZ Banking Group	8½	Duncan Lawrie	8½	Royal Bk of Scotland	8½
Associates Cap Corp	10	Exqt'r'l Tst C'p plc	9	Royal Trust Bank	9
Authority Bank	8½	Exeter Trust Ltd	9	Smith & Williamson Secs.	9
Banco de Bilbao	9	Financial & Gen. Sec	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp.	10	TSB	8½
Bank Leumi (UK)	9	First Nat. Sec. Ltd.	10	UDT Mortgage Exp	‡10.2
Bank Credit & Comm	9	● Robert Fleming & Co.	9	United Bk of Kuwait	8½
Bank of Cyprus	9	Robert Fraser & Ptnrs.	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust Plc	9
Bank of India	9	Grindlays Bank	8½	Western Trust	8½
Bank of Scotland	8½	● Guinness Mahon	9	Westpac Bank Corp.	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Whiteaway Laidlaw	9½
Barclays Bank	8½	● Hambros Bank	9	Yorkshire Bank	9
Benchmark Tst Ltd	9	Heritable & Gen Inv Bk	9		
Beneficial Trust Ltd	10	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co.	9		
Brit Bk of Mid East	8½	Hongkong & Shangh	8½		
● Brown Shipley	9	Lloyds Bank	8½		
Business Mtge Tst	9	Meghraj & Sons Ltd	9		
CL Bank Nederland	9	Midland Bank	8½		
Central Capital	9	● Morgan Grenfell	8½		
Cayzer Ltd	9	Mount Credit Cpn Ltd	9		

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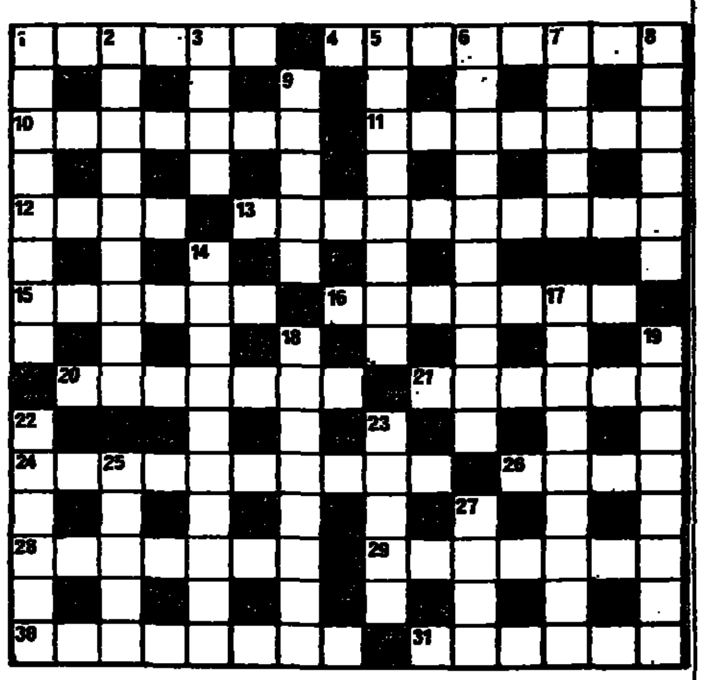
FT CROSSWORD No.6,499

SET BY GRIFFIN



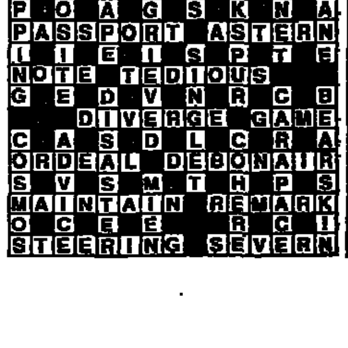
ACROSS

1 Capital figure at top of column (6)
4 Cannot move way inside, true (8)
10 Mosaic tile showing saints in a tree, camouflaged (7)
11 Bill King left woman holding hamper (7)
12 One managed without water (4)
13 Deputy head met parent about college division (10)
15 Enquired after the said sort (6)
16 Cyril at doctor's shows brilliance (7)
20 Troublesome children stray into high places (7)
21 In one marquee a pole is bent (6)
24 Lacking money for cake (10)
26 Leading entertainer in strip show (4)
28 I belong to base (7)
29 Pretend to drink with model (7)
30 Averse to change, scoffs too much (8)
31 Sang "Dancing Queen" in a French city (6)

DOWN

1 He's not invested in anything (8)
2 The Parisian studies outcome of languor (9)
3 Frank, ring the Swan (4)
5 Over which people put jumpers (8)
6 Small amount of stuff in pipe (10)
7 A low-down joint (5)
8 Romans had to cross twice for this (6)
9 Making friendly gesture to redhead, falter (5)
14 Generous girl enters church - clever! (10)
17 So he (the arbitrator) rushed round (9)
18 One in ten purr, perhaps, being curious (8)
19 Naked Koo rings off, surrounded by spectators (8)
22 "I smoke twist" - Alaskan (6)
23 Fred's first jumble sale is illegal (5)
25 Union leader formerly without cat (5)
27 Not one country bridge (4)

Solution to Puzzle No.6,498



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	341.6	359.7	—	—
Ebr. Ph. Eq.	304.1	323.2	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	143.2	150.7	+3.7	—
International Acc.	113.2	119.1	-0.3	—
Property Acc.	120.1	126.4	—	—
Fixed Interest Acc.	151.2	159.1	+1.3	—
Money Acc.	131.3	138.2	+0.7	—
Bldg. Soc. Link Acc.	130.9	137.7	—	—
Special Mnged. Acc.()	132.1	139.0	+1.9	—
Phoenix/Framlington				
Intnl. Growth Acc.	71.9	75.6	+1.4	—
Amer. & Gen. Acc.	65.9	69.3	+1.1	—
Capital Tst. Acc.	152.8	160.8	+3.2	—
Japan & Gen Acc	149.1	156.9	+4.4	—
Amercian Turn. Acc.	66.2	69.6	+1.6	—
Recovery Tst. Acc.	136.4	143.5	+2.9	—
Special Mngd Acc.	123.1	129.5	+1.0	—
Phoenix/GT				
International Acc.	108.6	114.3	+2.2	—
US & General Acc.	77.4	81.4	+1.8	—
Amer Spec Sits Acc.	52.2	54.9	+1.5	—
Japan & General Acc.	146.3	154.0	+5.0	—
Far East & Gen. Acc.	123.5	130.0	+4.0	—
UK Capital Acc.	141.9	149.3	+5.1	—
European Acc.	121.2	127.5	+0.8	—
Special Mngd. Acc.	109.2	114.9	+0.8	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	245.3	258.3	—	—
Man Pens Inc & Cap Fds.	308.5	324.8	—	—
Money Fund	110.2	116.0	—	—
Pens. Mngd Fd (Init)	74.1	78.0	—	—
Pens Mngd Fd (Acc)	82.1	86.5	—	—
Pens FT30 Fd (Init)	112.9	118.9	—	—
Pens FT30 Fd (Acc)	125.0	131.6	—	—
Pens O'seas MgFd(Init)	47.6	50.2	—	—

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prufund				
Managed Dec 02	180.6	188.2	-4.3	—

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd	394.0	414.8	—	—
Equity Fd.	773.7	814.5	—	—
Intnl. Fd.	276.1	290.7	—	—
Fixed Int. Fd.	356.5	375.3	+0.7	—
Prop. Fd.	295.7	311.3	—	—
Cash Fd.	231.6	243.8	—	—
Pacific Basin Fd.	152.6	160.7	—	—
North American Fd.	105.9	111.5	—	—
European Fd.	132.7	139.7	—	—
Holborn Balanced Gwth Fd	—	—	—	—
Holborn Strategic Gwth Fd	—	—	—	—

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	421.7	443.1	-0.9	—
Equity	587.2	611.8	-2.2	—
Global Equity	171.8	180.9	+0.6	—
Fixed Interest	366.8	386.2	—	—
Property	296.6	312.3	+0.1	—
Cash	135.3	142.5	—	—
Index Linked Gilts	166.0	174.8	+4.4	—
Guaranteed	9.25	10.25	—	—
International Money	182.2	191.8	+0.2	—
North American Fd.	50.2	52.9	—	—
Japanese Fund	98.19	103.3	—	—
European Fund	68.5	72.2	—	—
Special Situations Fd.	79.2	83.4	—	—
Communications Fund	68.4	72.0	—	—
Smaller Cos Fund	81.7	86.0	—	—

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1987 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
[illegible]	[illegible]	Treas 7¾pc 1985–88‡‡	[illegible]		7.76	8.39
[illegible]	[illegible]	Exch 10½pc '88	[illegible]	+⅛	10.41	8.45
[illegible]	[illegible]	Treas 9½pc Cv '88	[illegible]		9.69	8.51
[illegible]	[illegible]	Transport 3pc '78–88	[illegible]		3.07	6.86
[illegible]	[illegible]	Treas. 9½pc '88	[illegible]	+⅛	9.43	8.56
[illegible]	[illegible]	Treas 11½pc 1989	[illegible]	–⅛	11.15	8.63
[illegible]	[illegible]	Treas 9½pc Cnv 1989	[illegible]		9.39	8.59
[illegible]	[illegible]	Treas 3pc 1989	[illegible]	–⅛	3.14	6.16
[illegible]	[illegible]	Treas 10½pc 1989	[illegible]	+⅛	10.23	8.58
[illegible]	[illegible]	Exch 10pc 1989	[illegible]		9.80	8.65
[illegible]	[illegible]	Exch 11pc 1989	[illegible]	+⅛	10.60	8.66
[illegible]	[illegible]	Treas 5pc 1986–89	[illegible]		5.22	7.46
[illegible]	[illegible]	Exch 10½pcCv '89	[illegible]	+⅛	9.83	7.80
[illegible]	[illegible]	Treas 13pc 1990‡‡	[illegible]	+⅛	12.03	8.71
[illegible]	[illegible]	Exch 11pc 1990‡‡	[illegible]	+⅛	10.54	8.73
110	[illegible]	Exch. 12½pc 1990	[illegible]	+⅛	11.60	8.71
[illegible]	[illegible]	Treas. 3pc 1990	[illegible]	+⅛	3.26	6.65
[illegible]	[illegible]	Treas 8¼pc 1987–90‡‡	[illegible]	+⅛	8.31	8.58
105	[illegible]	Treas. 10pcCv 1990	[illegible]	+⅛	9.69	8.73
[illegible]	[illegible]	Exch 2½pc 1990	[illegible]	+⅛	2.79	6.41
[illegible]	[illegible]	Treas 11¾pc 1991	[illegible]	+⅛	10.91	8.82
[illegible]	[illegible]	Funding 5¾pc '87–91‡‡	[illegible]	+⅛	6.15	7.98
[illegible]	[illegible]	Treas. 3pc 1991	[illegible]	+⅛	3.38	6.74
[illegible]	[illegible]	Treas 10pc Cv '91 ‡‡	[illegible]	+⅛	9.53	8.56
[illegible]	[illegible]	Exch. 11pc 1991	[illegible]	+⅛	10.27	8.79
99	[illegible]	Treas. 8pc 1991	[illegible]	+⅛	8.20	8.73
[illegible]	[illegible]	Treas 12¾pc 1992‡‡	[illegible]	+⅛	11.27	8.87
[illegible]	[illegible]	Treas 10pc 1992	[illegible]	+⅛	9.61	8.81
[illegible]	[illegible]	Treas. 8pc 1992 ‡‡	[illegible]	+⅛	8.21	8.70
[illegible]	[illegible]	Treas 10¼pc Cv 1992‡‡	[illegible]	+⅛	9.91	8.85
[illegible]	[illegible]	Treas. 3pc 1992	[illegible]	+⅛	3.74	8.03
[illegible]	[illegible]	Exch. 12¼pc '92	[illegible]		10.90	8.94
[illegible]	[illegible]	Exch 13½pc 1992	117	+⅛	11.52	9.00

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS – Contd

Undated

Index–Linked

(1) (2)

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
43⅞	25½	RJR Nabisco Inc.	25⅝		$1.60	–	3.6
39	21⅛	Rep NY Corpn $5	23	–⅛	$1.16	–	2.9
18¾	8¾	Rockwell Intl. $1	9¼	+⅛	66c	–	4.1
30¼	16¼	Sara Lee $1(1/3)	18¼xd	+½	$1.00	–	3.1
11¾	8⅞	Saul (B. F.) $1	8⅞	–⅛	20c	–	1.3
27⅛	2¼	Southwestern Bell $1	19⅝		$2.32	–	7.0
22⅜	994p	Staley Continental	11¼	+1¼	80c	–	4.1
44⅝	21⅝	Sun Co. Inc. $1	27⅛	+⅜	$3.00	–	6.4
42¼	22¼	TRW Inc. $0.625	23⅝xd	–⅛	$1.60	–	4.0
37⅞	21⅞	Tenneco $5	22⅜xd		$3.04	–	7.7
220	149½	Do 10pcLn.Stk. 91-5	155xd		10%	–	14.7
29⅝	15⅞	Texaco $6.25	18¼xd	+1	$3.00	–	9.5
74½	40¼	Time Inc. $1	40½xd	–¼	$1.00	–	1.4
20⅞	11	Tracor $0.33(1/3)	17⅞xd		40c	–	1.3
30¾	15⅝	Transamerica $1	17xd		$1.84	–	6.2
14⅝	1¼	Transworld Corp $5	613p	–5	20c	–	1.9
27⅝	12¼	TRINOVA Corp	14⅛		56c	–	2.2
24½	12⅞	USX $1	15⅝	–⅛	$1.20	–	4.4
19⅝	10¼	Union Carbide $1	10¼xd	–¼	$1.50	–	8.4
37⅝	17¼	Utd. Technologies	17½xd	+⅛	$1.40	–	4.6
38⅝	26⅛	US West	27¼		$3.28	–	6.9
30⅞	17⅛	Waste Management $1	18⅝	+⅛	–	–	–
31⅜	11⅜	Whirlpool $1.0	12⅞	+⅛	–	–	–
37⅞	17½	Woolworth $3½	17½	–⅛	$1.32	–	4.3

CANADIANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
691p	227p	ABM Gold Corp	298p	–3	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES – Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES – Contd

[illegible]

THIRD MARKET

[illegible]

95	60	Lynx Tech. 5p	65		b–	–	–	7.5
130	98	M.L. Laboratories 1p	106	+3	–	–	–	–
180	88	Medirace 10p	92	–3	–	–	–	–
98	38	♦Ovoca Gold IR 2p	46		–	–	–	–
49	41	Propeller 1p	41		W–	–	–	12.8
*82	17	Publishing Hldgs 5p	31xr	+2	–	–	–	18.6
128	82	Seacon Hldgs	82		–	–	–	12.5
87	42	Theme Holdings	45	+2	1.0	1.9	3.0	24.1
36	28	Tomorrows Leisure 20p	30	–5	–	–	–	12.0
210	132	UPL Group 10p	132		L2.41	2.8	2.5	19.8
140	103	Unit Group	110	–2	‡4.6	2.5	5.7	(7.9)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	65	–3
Craig & Rose £1	565	–87
Finlay Pkg. 5p	81	+1
Holt (Jos) 25p	£11½	

For IoM Steam see Shipping

IRISH

Fund 11¼% 1988	£100¾	
Nat. 9¾% 84/89	£99¼	
Fin. 13% 97/02	£101⅞	
Arnotts	300xd	
CPI Hldgs	52	
Carroll Inds	150	
Dublin Gas	40#	
Hall (R. & H.)	100	
Helton Hldgs	42	+2
Irish Ropes	158½	
Norish	325	
Unidare	300	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied–Lyons	40
Amstrad	19
BAT	62
BOC Grp	50
BSR	17
BTR	36
Babcock	32
Barclays	52
Beecham	52
Blue Circle	50
Boots	30
Bowaters	50
Brit Aerospace	50
Brit. Telecom	28
Burton Ord	32
Cadburys	25
Charter Cons	45
Comm Union	34
Courtaulds	45
FNFC	32
Gen Accident	95
GEC	22
Glaxo	200
Grand Met	58
GUS 'A'	125
Guardian	95
GKN	38
Hanson Tst	17
Hawker Sidd	58
ICI	125
Jaguar	52
Ladbroke	45
Legal & Gen	32
Lex Service	45
Lloyds Bank	35
Lucas Inds	75
Marks & Spencer	22
Midland Bk	45
Morgan Grenfell	35
NEI	13
Nat West Bk	65
P & O Dfd	65
Plessey	20
Polly Peck	34
Racal Elect	32
RHM	35
Rank Org Ord	70
Reed Intnl	50
STC	30
Sears	16
TI	37
TSB	12
Tesco	18
Thorn EMI	65
Trust Houses	25
T&N	26
Unilever	62
Vickers	20
Wellcome	42
Property	
Brit Land	30
Land Securities	50
MEPC	48
Peachey	40
Oils	
Brit Petroleum	32
Britoil	30
Burmah Oil	52
Charterhall	10
Premier	11
Shell	115
Tricentrol	11
Ultramar	26
Mines	
Cons Gold	125
Lonrho	20
RTZ	100

A selection of Options traded is given on the London Stock Exchange Report Page

Gilt-edged and equities turn lower after rate cuts meet with negative reception

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Nov 23	Dec 3	Dec 4	Dec 14
Dec 7	Dec 17	Dec 18	Jan 4
Dec 21	Jan 7	Jan 8	Jan 18

*New time dealings may take place from 9.00 am two business days earlier.

THE CONCERTED moves to reduce interest rates in Europe, including a half point cut in UK bank base rates, met with a negative response in the London securities markets yesterday. Both equities and Government bond prices abandoned early gains to close lower, with a sharp rise in Index-linked Gilts disclosing the City's worries that the rate cuts could re-ignite inflationary pressures. The equity market weakened in late trading as Wall Street showed a heavy fall.

Nervousness in the Government bond market was heightened by the approach of the preliminary deadline for the Treasury repurchase offer on the BP "new" shares. If the Treasury takes its earliest option of closing the 70p BP "new" buyback offer on December 11, then a public announcement would be required today.

The stock market opened firmly, although turnover remained disappointing, and spurted further ahead on the news of UK base rate cuts to show a gain of around 21 FT-SE points at mid-session.

But price gains melted away as the Gilt-edged market turned back. At the close, the FT-SE 100 Index was a net 1.9 lower on the day at 1588.4. The failure of the Index to hold above the 1600 mark suggested an absence of underlying support. Some institutional demand for shares in early trading faded later.

The cut in West German discount rate, soon followed by similar moves in France, Austria and Holland, had been largely discounted, and only the timing of the UK rate reduction surprised the market.

The rate cuts in other European countries were judged against the muted response from the US dollar, which left Cityeconomists to comment that "the US budget deficit remains the problem".

The response from UK market analysts to the cut in British rates was even more negative. "These rates will not be sustainable", was the immediate reaction from John Shepperd of Warburg Securities. Concern over inflation has been increased by what looks like a politically forced cut in UK rates.

Long-dated Government bonds, which had gained a full point at first, ended with losses of ¼ or so, bringing from one major dealer the comment: "This is the first time can remember a base rate cut being greeted by a fall at the long end of the bond market.

Even short-dated issues, which traditionally move most closely with bank and money market rates, ended a mere ⅛ higher.

The feature, however, came in Index-linked Gilts (IL), which ended with gains of a full point or so, just a shade below the best levels. Analysts questioned whether the yield gap between IL and Conventional Gilts adequately reflects the inbuilt inflation hedge on IL stocks.

The equity market looked somewhat ragged at the close of the session, with an irregular trend in currencies leaving the exporting stocks with mixed changes. **Glaxo** held firm but **ICI**, **GEC** and **Rolls-Royce** showing minor falls.

Oil shares firmed up despite the continuing uncertainty hanging over world oil prices.

BP "new" remained the most active issue in the market and the shares hardened a penny to 72p after a turnover of47m mshares, slightly above the level of business of the past two trading sessions. Market talk of further buying interest from the Kuwait Investment Office was said by dealers to be "wide of the mark".

BP "old" were 3 higher at 237p on a turnover of 8.2m shares-dealers said there was a feeling in the market that the shares had been oversold and were due a rally.

MK Electric remained the focus of attention in the electricals sector of the market as, first, West Germany's Siemens AG pulled out of takeover talks with the UK company, and second, French group Legrand announced it was engaged in takeover discussions with MK.

The latter has been the subject of "dawn raids" from RTZ, currently bidding 550p a share in cash for MK, and Legrand whose brokers James Capel moved in to offer 650p a share for up to 15 per cent of the company. In the event RTZ acquired 21.7 per cent and Legrand just over 6 per cent of MK, although yesterday Legrand were thought to have acquired a further stake of some 500,000 shares, prior to the bid talks.

MK shares ran back to close 38 lower at 662p, while those of RTZ were finally at .

Bass impressed the market with profits slightly above expectations at £365m for the year compared with £310.4m last year. The drinks division performed particularly well in a rather difficult year, and a further bonus was a surplus of £829m resulting from a recent revaluation of the group's properties.

Fiona Matheson of Wood Mackenzie described Bass as "a superb company of real quality which goes from strength to strength". She forecasts current year profits of £425m and earnings growth of 15 per cent. The shares rose to 788p before turning back to close only marginally higher on the day at 779p after some analysts suggested that the current rating might be a little demanding.

Mecca Leisure, the UK entertainments group dipped 19 to 160p as the company announced a proposed two-for-seven rights issue at 140p per share to raise £29m, plus a £30m loan facility, to finance the acquisition of 17 UK holiday centres plus the purchase of the Astey's catering business from **Ladbroke**.

Mecca are paying a total of £55.1m for the businesses which made operating profits of £5.6m in 1986. Ladbroke is retaining its overseas holiday interests and expects to sell off more of its peripheral businesses. The Ladbroke share price failed to respond to the news and closed a penny off at 305p.

Marks and Spencer shares, hit recently by talk of sluggish spending in the run-up to the crucial Christmas period, were given another pounding yesterday. The stock closed 10 lower at 160p as the market got wind of a profits downgrading by securities house Citicorp-Scrimgeour Vickers.

Scrimgeour Vickers is believed to have lowered its forecast of M & S profits for the current year by £30m to £540m. Turnover in Marks and Spencer shares totalled 7.2m.

The UK clearing banks remained out of favour with turnover in the sector said to have been at the lowest levels for some timne.

Preliminary results - from **Royal Bank of Scotland** - pre-tax profits came out at £197.2m against last time's £184.5m and forecasts as low as £168m- were well in excess of the most optimistic forecasts and Royal Bank of Scotland shares raced up to 308p before closing a net 10 higher at 303p. Standard Chartered finally 15 lower at 435p.

J.Rothschild Holdings spurted 10 to 154p as broker Cazenove went round the market bidding 149p-plus for around 1.5m shares in another buying in operation for the company.

Guinness were the other focal point in the Brewery sector. Fresh demand found some marketmakers running short book positions and the shares rose to 268p before closing 4 higher on the session at 266p. **Allied-Lyons** were barely changed after a smaller two-way business but one or two secondary issues came under pressure. Chief among these were **Buckley's**, down 8 at 165p, and **Burtonwood**, which gave up 6 at 127p.

Housebuilders breathed a sigh of relief on news that VAT need not be charged on private housebuilding. This was reflected in the prices of **George Wimpey** and **Barratt Developments**, both of which responded to early buying interest. Barratt closed 3 dearer at 163p, while Wimpey, additionallly boosted by stakebuilding rumours, added 2 to 187p.

ICI took its cue from a steadier US dollar and rose to 993p before easing back on early Wall Street influences to close marginally easier on balance at 973p. **Coalite** responded to the good half-year figures with a gain of 13 at 311p, but recently-firm **Wardle Stoerys** eased 20 to 495p. **Anchor**, a rising market recently following a bid approach, eased 5 to 615p pending developments.

Speculation that a cash alternative to the all shares bid from Benlox is imminent boosted **Storehouse** shares which moved up to 259p prior to closing a net 7 up at 256p, after a turnover of 6.2m shares.

Plessey made good progress and closed 6 higher at 133p on a turnover of 7.7m shares reflelcting further consideration of the possible purchase of GEC's semiconductor business.

The news that Blue Circle Industries had increased its stake to 9.3 per cent in **Birmid Qualcast**, buying a further 1.2m shares at 300p per share, generated fresh speculative interest throughout the Engineering sector. Hopes rose that BCI would decide to launch a full bid and Birmid shares soonattained a new 1987 high of 322p prior to closing a mere penny up at 310p. Other possible takeover candidates were bought again and **Delta** hardened to 235p while **Glynwed International** improved 4 to 404p. Good interim profits statements encouraged support of other stocks, including **Castings**, 6 dearer at 134p, **600 Group**, which firmed 3 to 77p, and **ML Holdings**, 3 better at 108p. But the outstanding mover was **RHP**, up 19 at 169p on its preliminary trading announcement. Profits of nearly £22m were a pre-tax record and for the first time ever the group was in a net cash position at the financial year end. RHP also intends to sell its bearings division for £73.5m to a newly formed company funded by a consortium of institutions led by Citicorp Venture Capital and Standard Chartered Bank.

Ranks Hovis McDougall highlighted the Food sector, rising 9 to 307p, after 515p, reflecting speculative buying on revived hopes of a bid from Goodman Fielder; the company also continued to benefit from a recent recommendation from Warburg Securities. Recently-oversold **Dalgety** picked up 8 at 277p, while **Northern Foods**, reporting shortly, firmed 2 more to 253p. Old takeover favourite **Fitch Lovell** added 4½ to 262½p. On the other hand, recent favourite **Cadbury Schweppes** gave ground in the absence of further buying interest to close 7 off at 228p; the share price had made good progress in recent days on speculation that General Cinema of the US may increase its stake in the company. **Tate and Lyle** lost 12 to 646p despite annual profits at the top of market estimates and a confident statement from the chairman; marketmakers reported that the price eased in the absence of the recent support for the shares.

Elsewhere, **Hunter Saphir** gave ground following disappointing half-year figures to close 8 lower at 174p.**Argyll**, following conflicting views by analysts of the interim results, shed 11 to 174p as sellers gained the upper hand.

Major overseas earning stocks made a brighter showing initially helped by a steadier US dollar and the latest cut in UK base rates which provided further impetus, however, Wall Street's early lack of conviction saw prices close well below the best. **Hanson Trust** reported annual profits at the top end of market estimates and the price responded with a rise of 4 at 126p, prior to closing only a penny dearer on balance at 123p. **Glaxo** were ⅛ dearer at £10⅛¼ and **BOC** attracted fresh support and rose 11 to 361p. **Reuters** improved initially on vague bid speculation, but later eased back to close 3 off at 395p; Reed International were mentioned as a possible preditor. **London International** responded strongly to overseas buying with a gain of 8 at 276p and **Cookson**, helped by Press comment, gained 10 to 458p. **Johnson Matthey** gained 3 to 228p following profits well up to market expectations. **English China Clays** and **Smith and Nephew**, both reporting shortly, both made progress, the former rising 3 to 362p and the latter 3 to 139p. End-Account profit-taking clipped 15 from **Pearson** at 620p.

Fairline Boats were outstanding in the Leisure sector, rising 20 to 245p in reply to doubled interim profits.

Persistent small sales of **United Newspapers** weighed on the market and, in the absence of worthwhile support, the price dropped 16 to 388p. Movements otherwise in Paper/ Printings were of little significance. Improved first-half profits took **Jarvis Porter** up 5 to 120p but sporadic offerings lowered **Hunterprint** 18 to 320p. Analysts were positive about **Saatchi & Saatchi** after Wednesday's excellent profits but the shares still retreated 9 to 370p. Sheila Martin of Morgan Grenfell Securities reckons the group's "strong cash flow, above average dividend cover and a falling p/e outweigh short-term currency risks". Elsewhere, **Addison Consultancy** rose 9 to 84p.

Properties passed an uneventual session and closed easier for choice - despite the latest round of base rate cuts. **Land Securities** drifted off to close 3 down at 415p, and **MEPC** lost a similar amount, also to 415p. **Hammerson A** were 10 off at 433p and **Peachey** slipped 5 to 333p. Elsewhere, **City Site Estates** responded to good preliminary figures and a confident statement with a rise of 15 to 165p, while **Helical Bar** revived strongly amid rumours of a further property deal to close 9 higher at 147p. **Green Property** gained 10 to 100p in a restricted market and **Merivale Moore** rose 25 to 300p in similar circumstances.

Kingsley and Forester responded initially to recommended share exchange terms from **S.Casket** but fell back later with the weakness in the latter's price to end only just a shade firmer on balance at 52p, after 58p. S.Casket dropped 15 to 68p. Recent County NatWest advice of an "excellent investment" supported **Leeds**, slightly firmer at 295p, but **G.Ingham** were dull at 100p, down 15.

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A report of a deal between **Baltic** and Aberdeen Fund Managers involving unit trust businesses aroused inquiries for the former which gained 15 to 163p. Miscellaneous Financials otherwise lacked direction with **Mercury Asset Management** improving 10 to 250p but independent marketmakers **Smith New Court** falling 10 to 170p; the latter's interim figures are due next Thursday.

Traded options contracts were lower with a total of 27,845 contracts transacted. Calls amounted to 18,160 and puts were 9,685. **Bats** were relatively active, attracting 1,088 calls and 1,225 puts. **British Gas** realied 1,998 calls and 1,720 puts. Following the annual results, **Hanson Trust** attracted 1,986 calls and 256 puts. The **FTSE** contract managed only 275 calls and just 501 puts.

Traditional Options

- First dealings Nov 30
- Last dealings Dec 11
- Last declarations Mar 3
- For Settlement Mar 14

For rate indications see end of London Share Service

"Call options included AB Eng, Dares Esates, Bridon, Dee Corp, Magnet Corp, Howden Grp, Tozer Kemsley & Millbourn. No "puts" or "doubles" were arranged.

FINANCIAL TIMES STOCK INDICES

	Dec. 3	Dec. 2	Dec. 1	Nov. 30	Nov. 27	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	89.97	89.85	89.76	90.28	89.95	81.21	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.85	96.39	96.38	96.84	96.46	88.43	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1263.6	1266.9	1249.8	1250.9	1308.2	1265.9	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	337.0	341.3	338.3	352.0	320.0	331.8	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.91	4.89	4.96	4.95	4.73	4.49				
Earnings Yld. %(full)	12.15	12.10	12.27	12.23	11.70	10.50				
P/E Ratio (net)(*)	10.06	10.10	9.96	9.99	10.45	11.66				
SEAQ Bargains (5pm)	23,323	20,499	25,280	24,686	16,798	24,916				
Equity Turnover (£m)	-	1009.27	770.29	811.45	597.91	-				
Equity Bargains	-	23,976	28,238	25,981	18,109	-				
Shares Traded (ml)	-	426.0	359.2	361.0	282.8	-				

S.E ACTIVITY

Indices	Dec.2	Dec.1
Gilt Edged Bargains	119.0	121.9
Equity Bargains	155.3	183.0
Equity Value	2040.0	1556.9
5-Day average		
Gilt Edged Bargains	116.5	116.9
Equity Bargains	150.3	152.6
Equity Value	1606.0	1580.8

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1264.9	1275.6	1273.8	1269.0	1278.5	1281.2	1274.7	1267.5

Day's High 1283.9 Day's low 1263.6

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=9.93 .

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (4).

BRITISH FUNDS (3) Treas. 2pc. ‡ 1988, Do. 2pc. ‡ 1996, Do. 2½pc. ‡ 2001, MINES (1) DRX Inc.

NEW LOWS (114).

AMERICANS (16) CANADIANS (1) BANKS (3) BREWERS (2) BUILDINGS (1) CHEMICALS (4) STORES (4) ELECTRICALS (14) ENGINEERING (4) FOODS (4) INDUSTRIALS (19) INSURANCE (1) LEISURE (2) MOTORS (3) NEWSPAPERS (1) PAPERS (4) PROPERTY (4) SHIPPING (1) TEXTILES (1) TRUSTS (17) OILS (1) OVERSEAS TRADERS (2) MINES (4) THIRD MARKET (1).

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

		Thursday December 3 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Wed Dec 2 Index No.	Tue Dec 1 Index No.	Mon Nov 30 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (214)	638.86	-0.3	11.05	4.49	11.36	19.71	640.84	632.44	634.72	672.85
2	Building Materials (30)	809.79		11.92	4.62	10.46	23.87	809.91	799.57	808.41	843.33
3	Contracting, Construction (33)	1194.12	+0.1	10.44	4.17	12.81	34.54	1193.00	1185.62	1187.50	1146.42
4	Electricals (14)	1841.97	-1.3	9.93	5.05	13.09	64.72	1865.73	1827.47	1840.52	1707.20
5	Electronics (33)	1393.98	+0.4	11.42	3.73	11.44	36.82	1388.30	1375.66	1402.19	1434.48
6	Mechanical Engineering (60)	318.46	-1.0	11.68	5.14	10.78	11.92	321.61	317.88	315.38	379.92
8	Metals and Metal Forming (7)	374.54	+0.7	10.51	4.41	11.58	11.55	371.99	364.19	361.57	349.62
9	Motors (14)	222.54	-1.3	13.52	5.20	8.61	7.36	225.57	222.58	223.71	264.43
10	Other Industrial Materials (23)	1133.47	-0.7	9.85	4.52	13.14	37.40	1141.36	1118.36	1105.00	1179.85
21	CONSUMER GROUP (182)	940.18	-0.6	9.14	3.82	13.91	23.47	945.85	933.23	926.12	922.38
22	Brewers and Distillers (21)	911.91	+0.1	11.35	4.11	11.09	18.46	910.76	893.22	894.73	914.57
25	Food Manufacturing (23)	756.43	-0.7	10.00	4.22	12.91	22.49	761.60	745.77	740.72	733.01
26	Food Retailing (17)	1917.05	-0.9	8.33	3.17	16.01	40.77	1935.01	1896.05	1863.50	1827.45
27	Health and Household Products (10)	1710.49	+0.5	6.76	2.63	17.40	33.67	1701.17	1668.14	1650.64	1493.51
29	Leisure (29)	1011.62	-0.1	7.99	4.51	15.62	29.45	1012.27	988.23	991.51	968.32
31	Packaging & Paper (16)	444.66	-1.2	9.48	4.87	13.09	12.53	449.95	439.75	436.24	483.98
32	Publishing & Printing (15)	2929.31	-1.4	7.48	4.99	16.90	97.34	2969.45	2951.96	2939.00	2660.38
34	Stores (35)	749.46	-1.8	9.96	4.02	13.47	20.18	763.06	772.57	763.25	831.78
35	Textiles (16)	527.59	-0.8	12.40	4.46	9.29	15.46	532.06	518.26	515.17	529.91
40	OTHER GROUPS (87)	767.11	-0.5	11.74	4.74	10.60	21.23	770.65	767.99	766.85	792.06
41	Agencies (17)	880.07	-0.4	6.96	2.68	18.86	16.91	883.78	872.13	878.01	0.0
42	Chemicals (21)	945.94	+0.3	10.53	4.95	11.60	33.31	942.86	934.52	931.51	1011.01
43	Conglomerates (13)	1041.19	-0.3	10.57	4.60	10.85	22.43	1044.73	1042.82	1037.04	0.0
45	Shipping and Transport (11)	1589.45	-1.5	10.70	5.19	12.26	56.73	1613.28	1594.98	1600.78	1534.24
47	Telephone Networks (2)	813.87	-0.6	13.23	5.20	10.06	18.98	818.56	821.64	820.04	779.45
48	Miscellaneous (23)	1050.88	-0.7	14.63	4.54	8.13	33.80	1058.79	1056.32	1054.76	1104.11
49	INDUSTRIAL GROUP (483)	821.98	-0.5	10.32	4.24	12.20	22.29	826.02	817.25	814.67	832.85
51	Oil & Gas (17)	1512.23	+1.7	10.99	6.51	11.22	65.74	1487.60	1512.02	1544.13	1398.43
59	500 SHARE INDEX (500)	880.48	-0.2	10.42	4.57	12.05	26.04	882.07	876.14	876.52	880.57
61	FINANCIAL GROUP (121)	574.88	-0.4	-	5.43	-	21.37	577.14	568.42	570.78	597.30
62	Banks (8)	587.37	-0.6	22.71	6.63	5.82	25.98	590.68	582.95	586.92	641.58
65	Insurance (Life) (8)	864.62	+0.2	-	5.32	-	32.56	862.75	847.77	856.04	854.03
66	Insurance (Composite) (7)	455.55		-	6.05	-	20.16	455.31	448.44	452.44	448.63
67	Insurance (Brokers) (8)	752.80	-0.3	14.77	7.62	8.66	39.63	754.29	739.53	737.55	1151.95
68	Merchant Banks (11)	308.41	-1.4	-	4.61	-	8.77	312.69	307.20	312.51	340.78
69	Property (49)	860.96	-0.9	6.00	3.55	21.29	18.92	869.00	859.01	848.38	804.80
70	Other Financial (30)	349.21	+0.3	10.32	4.54	12.28	11.96	348.16	339.79	344.20	362.01
71	Investment Trusts (87)	756.58	-0.3	-	3.34	-	17.14	758.83	757.64	754.55	840.46
81	Mining Finance (2)	425.38	-0.3	10.69	4.01	10.54	12.77	426.79	423.24	426.25	322.07
91	Overseas Traders (10)	861.27	-0.4	10.56	5.80	11.09	37.00	864.86	854.86	862.36	751.38
99	ALL-SHARE INDEX (720)	880.06	-0.2	-	4.66	-	24.49	881.84	795.51	796.31	804.87

	Index No.	Day's Change	Day's High	Day's Low	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Year ago
FT-SE 100 SHARE INDEX ♦	1588.4	-1.9	1611.5	1586.0	1590.3	1578.5	1579.9	1651.6	1660.7	1610.1

FIXED INTEREST

	PRICE INDICES	Thu Dec 3	Day's change %	Wed Dec 2	xd adj. today	xd adj. 1987 to date
	British Government					
1	5 years	124.70	+0.07	124.61	-	10.09
2	5-15 years	142.44	+0.15	142.22	-	12.14
3	Over 15 years	149.90		149.89	-	12.41
4	Irredeemables	165.87	+0.47	165.09	-	13.59
5	All stocks	138.77	+0.11	138.63	-	11.58
	Index-Linked					
6	5 years	125.22	+0.16	125.03	-	2.18
7	Over 5 years	119.73	+1.44	118.03	-	2.89
8	All stocks	120.01	+1.33	118.44	-	2.82
9	Debentures & Loans	118.98	-0.02	119.00	-	10.46
10	Preference	85.93	-0.35	86.23	-	6.09

	AVERAGE GROSS REDEMPTION YIELDS		Thu Dec 3	Wed Dec 2	Year ago (approx.)
	British Government				
1	Low	5 years	8.41	8.45	9.95
2	Coupons	15 years	9.21	9.21	10.69
3		25 years	9.10	9.11	10.70
4	Medium	5 years	9.02	9.05	11.44
5	Coupons	15 years	9.41	9.42	11.06
6		25 years	9.35	9.34	10.66
7	High	5 years	9.11	9.13	11.51
8	Coupons	15 years	9.55	9.56	11.25
9		25 years	9.35	9.36	10.75
10	Irredeemables†		8.88	8.91	10.36
	Index-Linked				
11	Inflation rate 5%	5yrs.	2.51	2.55	3.77
12	Inflation rate 5%	Over 5 yrs.	3.73	3.82	3.80
13	Inflation rate 10%	5 yrs.	2.81	2.86	2.33
14	Inflation rate 10%	Over 5 yrs.	3.79	3.88	3.64
15	Debs &	5 years	10.61	10.61	11.89
16	Loans	15 years	10.59	10.59	11.84
17		25 years	10.59	10.59	11.78
18	Preference†		10.54	10.50	11.83

♦Opening index 1586.0; 10 am 1601.2; 11 am 1599.0; Noon 1594.6; 1 pm 1604.7; 2 pm 1608.8; 3 pm 1600.5; 3.30 pm 1601.1; 4 pm 1593.0

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		Calls Jan.	Calls Apr.	Calls Jul.	Puts Jan.	Puts Apr.	Puts Jul.
Allied Lyons (*333)	300	38	53	60	10	17	27
	330	22	35	42	23	32	42
	360	9	22	30	47	50	57
Brit. Airways (*133)	130	13	20	24	11	15	18
	140	7	14	19	15	20	25
	160	4	10	15	31	34	38
[illegible]							

Option		Calls Feb.	Calls May	Calls Aug.	Puts Feb.	Puts May	Puts Aug.
LASMO (*203)	200	30	38	45	22	28	35
	220	23	28	35	32	38	45
	240	13	20	30	45	52	60
P. & O. (*478)	420	90	103	-	10	15	-
	460	60	75	98	22	27	37
	500	43	58	75	40	47	60
[illegible]							

December 3 Total Contracts 27,845 Calls 18,160 Puts 9,685

FT-SE Index Calls 275 Puts 501

*Underlying security price.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	1,500	Enterprise Oil	1,100	Prudential	440
Allied-Lyons	1,700	Fisons	722	Racal	2,400
Amstrad	1,200	Gen. Accident	193	Rank Org.	133
Argyll Group	4,000	Gen. Elect	11,000	RMC	141
Assoc. Brit. Foods	373	Glaxo	1,600	RHM	1,300
BAA	733	Globe Investment	322	Reckitt & Col.	176
BAT	2,200	Granada	541	Redland	416
BET	566	Grand Met	2,100	Reed Intl.	617
BICC	976	GUS A	765	Reuters	1,500
BOC	2,500	Guardian R.E.	516	RTZ	730
BPB Inds	182	GKN	155	Rolls-Royce	12,000
BTR	3,900	Guinness	2,550	Rothmans	975
Barclays	2,100	Hammerson	155	Rowntree	90
Bass	1,300	Hanson Trust	20,000	Ryl Bank Scotland	1,400
Beecham	2,400	Hawker Sidd	584	Royal Insurance	396
Blue Arrow	2,300	Hillsdown Hldgs	1,800	STC	3,300
Blue Circle	250	IMI	638	Saatchi & Saatchi	1,700
Boots	2,300	ICI	2,000	Sainsbury	1,500
Brit. Airways	1,500	Jaguar	1,200	Scott & Newcastle	725
Brit. Aero	6,400	Ladbroke	1,200	Sears	4,100
Brit. & Comm.	810	Land Securities	7,200	Sedgwick	274
British Gas	6,200	Laporte	235	Shell Trans	709
Brtoil	5,800	Legal & Gen.	477	Smith & Nephew	4,400
BP	8,200	Lloyds Bank	1,400	Standard Chart.	905
Brit. Telecom	13,000	LASMO	823	Storehouse	6,200
Bunzl	673	Lonrho	749	Sun Alliance	456
Burmah Oil	852	Lucas	63	T & N	398
Burton	3,800	MEPC	654	TSB	464
Cable & Wire	2,500	Marks & Spencer	6,900	Tarmac	1,000
Cadbury Schwps	2,700	Maxwell Comms.	2,150	Tesco	2,100
Coats Viyella	2,000	Metal Box	772	Thorn EMI	2,800
Comm. Union	2,000	Midland Bank	1,900	Trafalgar House	466
Cons. Gold	612	NatWest Bank	1,400	T'house Forte	6,900
Cookson	267	Next	998	Ultramar	155
Courtaulds	738	Northern Foods	963	Unilever	820
Dalgety	273	Pearson	348	United Biscuits	1,600
Dee Corpn	4,400	Pearl Assurance	382	Wellcome	3,500
Dixons Group	2,200	P & O	797	Whitbread A	461
English China Clays	661	Pilkington Bros	1,500	Woolworth	1,600
		Plessey	6,700		

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	89	15	11
Corporations, Dominion and Foreign Bonds	21	18	14
Industrials	300	523	734
Financial and Properties	86	214	328
Oils	25	29	57
Plantations	2	0	12
Mines	20	79	99
Others	63	91	92
Totals	606	969	1,347

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

[illegible]

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | NETHERLANDS | NORWAY | ITALY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
Closing prices December 3

[illegible]

MONTREAL
Closing prices December 3

[illegible]

OVER-THE-COUNTER
Nasdaq national market, closing prices

Continued from Page 51

[illegible]

LONDON
Chief price changes
(in pence unless otherwise indicated)

RISES:

Treas 2½% IL 2003 £109⅝		+ 1⅝
Baltic	163	+15
British Gas	124	+ 6
Calor Group	423	+18
City Site Estates	165	+15
Coalite Group	311	+13
Dalgety	277	+ 8
Fairline Boats	245	+20
London Intl	276	+ 8
Royal Bank of Scot	303	+10
Buckleys Brewery	165	+ 8
Casket (S.)	68	+15
Ingham (G.)	100	+15
Marks & Spencer	160	+10
Mecca Leisure	160	+19
Morgan Grenfell	215	+15
Smith New Court	170	+10
Standard Chartered	435	+15
Utd. Newspapers	388	+18

TOKYO — Most Active Stocks
Thursday, December 3, 1987

	Stocks Traded	Closing Prices	Change on Day
Shinko Electric	20.14m	525	+ 18
Sumitomo Heavy Ind	14.88m	437	− 3
Nippon Steel	11.21m	423	− 5
Pacific Metals	7.91m	435	+ 22
Konica	7.71m	684	+ 24
Kawasaki Steel	7.55m	342	− 5
Unitika	7.45m	397	+ 18
Tokyo Rope Mfg	5.97m	781	+ 21
Fuji Kosan	5.63m	441	− 14
Nihon Nosan Kogyo	5.36m	640	+180

Indices

NEW YORK — DOW JONES

	Dec. 2	Dec. 1	Nov. 30	Nov. 27	1987 High	1987 Low	Since compilation High	Since compilation Low
◆Industrials	1848.97	1842.34	1833.55	1910.48	2722.42 (25/8)	1738.42 (19/10)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	86.64	86.39	86.75	86.95	95.51 (9/2)	81.26 (19/10)	–	–
Transport	702.43	697.14	695.14	728.43	1101.16 (14/8)	674.92 (26/10)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	177.51	176.98	175.79	180.38	227.83 (22/1)	160.98 (19/10)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 1871.52 (1877.98) Low 1825.27 (1829.08)

STANDARD AND POOR'S	Dec. 2	Dec. 1	Nov. 30	Nov. 27	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite ‡	233.45	232.00	230.30	240.34	336.77 (25/8)	224.99 (19/10)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	266.76	265.05	263.24	275.24	393.17 (25/8)	257.81 (19/10)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	21.21	21.04	21.01	21.90	32.43 (25/8)	21.77 (19/10)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	131.21	130.90	129.69	135.16	187.99 (25/8)	127.88 (26/10)	187.99 (25/8/87)	4.46 (25/4/42)
Amer Mkt. value	243.82	241.68	242.39	250.97	365.81 (13/8)	234.08 (28/10)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	305.22	305.24	305.16	316.47	455.26 (26/8)	291.90 (28/10)	455.26 (26/8/87)	54.87 (31/10/72)

	Nov. 27	Nov. 20	Nov. 13	year ago (approx.)
Dow Industrial Div. Yield	3.59	3.58	3.54	3.61
S & P Industrial div. yield	[illegible]	[illegible]	[illegible]	[illegible]
S & P P/E ratio	[illegible]	[illegible]	[illegible]	[illegible]

TRADING ACTIVITY

[illegible]

CANADA

TORONTO

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | ITALY | JAPAN | NETHERLANDS | NORWAY | SINGAPORE | SOUTH AFRICA | SPAIN | SWEDEN | SWITZERLAND | WORLD

[illegible]

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14¾	AAR s	.36	2.5	13	2212	15⅝	d14½	14½	−1⅛
32½	18¾	AFG s	.16	.7	8	169	23⅝	23¼	23¼	−¼
27	10½	AGS s			10	439	13⅝	11⅞	12	−1⅛
10½	6⅜	AMCA				10	6⅝	6⅜	6⅜	−⅛
9⅜	3¼	AM Intl			42	930	5⅛	4⅝	4⅝	−½
65½	29⅜	AMR			8	4492	30¼	d28¼	28⅝	−1⅛
12¼	6⅜	ARX s			7	249	7	6⅞	6⅞	
73½	35⅛	ASA	2a	3.9		1489	53⅞	49¾	51⅛	−1⅞
22⅞	9½	AVX			14	333	11½	11¼	11⅜	−½
67	40	AbtLab	1	2.3	16	5737	44⅞	43⅛	43⅛	−1¾
28	15⅜	Abitibi g				160	18⅝	18⅜	18⅜	−¼
16¾	8½	AcmeC .40		4.2	14	600	9⅝	9⅝	9⅝	−¼
10½	6⅛	AcmeE .32b		4.4	25	4	7¼	7⅛	7¼	
20	14⅛	AdaEx 3.34e		21.		95	16¼	15½	15¾	−½
19½	7¾	AdmMl s .24		3.2	6	132	8¼	d	7⅜	7½
35	15⅛	AdvSys			18	316	27⅝	26⅞	26⅞	−⅛
24⅞	8⅛	AMD				62998¾	d	8	8	−⅝
58¾	29¼	AMD pf	3	10.		440	29⅝	29¼	29½	−⅛
11⅞	4⅝	Adobe				199	5½	5	5¼	−⅜
20½	15½	Adob pf 1.84		11.		27	16⅞	16¾	16⅞	+⅛
15	6⅛	Advest .12a		1.6	6	168	7¾	7½	7½	−¼
68¼	44⅛	AetnLf 2.76		6.2	6	2706	45⅛	44⅜	44⅜	−¼
63½	33¼	AfilPb s .32		.8	6	900	44½	41	41	−2¾
25⅞	13⅜	Ahmans .88		6.2	6	3323	14⅜	13⅞	14⅛	
5⅜	1¾	Aileen				20	2½	2⅜	2⅜	
53⅞	29	AirPrd	1	3.2	11	1461	33¼	31⅛	31¼	−1⅞

Continued on Page 51

NYSE COMPOSITE CLOSING PRICES

Continued from Page 50

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
54¾	42½	WiscPL3.12		7.1	10	102	44¾	44	44⅛	−½
27½	18⅞	WisPS s1.54		7.7	10	368	20½	20	20⅛	−⅛
47⅞	28⅝	Witco	1.28	4.3	10	423	30½	29⅞	30	
16½	8¾	WolvTc	.20	2.1	7	28	10	9⅝	9⅝	−⅜
14	7½	WolvrW			52	170	9	8⅞	8⅞	−¼
59⅝	30⅞	Wlwth s1.32		4.4	8	2242	31¼	d29¾	29¾	−2
167½	90	Wolw pf2.20		2.6		1	86	d86	86	−5
9⅝	4	WrldCp				10	7	7	7	−⅛
19½	10¾	WrldVl				114	11⅛	11	11	−⅛
64⅝	39	Wrigly s1.04a		1.9	17	106	60	55¼	55¼	−4½
3⅞	1⅜	Wurltzr				9	1⅜	1⅜	1⅜	
17½	7	WyleL s .28		2.8	19	52	10⅛	9⅞	10	−⅛
30⅝	14½	Wynns	.60	3.4	14	10	17¾	17½	17½	−⅝
		X Y Z								
85	50	Xerox	3	5.9	11	3099	52⅝	50½	51	−1
58¼	52½	Xerox pf5.45		10.		211	52⅞	52½	52⅞	+⅜
31½	19¾	XTRA	.64	3.1	14	228	22	20⅞	20⅞	−⅝
28¼	19½	XTRA pf1.94		9.2		92	21	21	21	+⅛
33⅞	16⅛	Yorkln			9	178	21½	21	21¼	
7¼	2⅝	Zapata				201	3	2¾	3	+⅛
37	14⅝	Zayre	.40	2.8	5	3445	16	d14	14⅝	−1½
18⅛	9¼	Zemex	.40	4.0	9	3	10	10	10	−⅛
33⅝	10	ZenithE				2571	14⅛	13⅜	13⅝	−½
13½	3	ZenLab				2637	3⅜	3	3	−¼
26½	13½	ZenNtl	.80	4.9	8	187	16⅝	16⅛	16¼	+⅛
20⅝	11⅜	Zero	.36	3.0	12	188	12⅞	12⅛	12⅛	−⅜
30¾	15	Zurnln s .68		4.0	11	370	17¼	16¾	16⅞	−⅝
10⅝	7⅝	Zweig	.92e	11.		503	8½	8¼	8⅜	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, *but not the latest* trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued on Page 49

AMERICA

Dow hit by poor retail sales data

Wall Street

UNDERMINED by a lacklustre dollar and disappointing November department store sales, Wall Street stocks fell steeply yesterday to their lowest level since Black Monday, *writes Roderick Oram in New York.*

The dollar rose after a number of European central banks cut key interest rates but the currency's failure to respond robustly, left foreign exchange players disappointed and feeling it was vulnerable to further downward pressure.

US credit markets enjoyed a modest boost from the higher dollar and the stock market's poor performance with bond prices rising about two-thirds of a point. Trading volume remained very light.

Uncertainty about the dollar spilled over into the equity markets, promoting a steep sell off. The downturn was accelerated by heavy selling of stock futures contracts.

The Dow Jones industrial average closed down 72.45 points at 1,776.53 compared with 1,738.41 on October 19. Broader market indices followed the blue chips downward with the Standard & Poor's 500 dropping 8.25 to 225.21 and the New York Stock Exchange composite index falling 4.20 to 127.01.

NYSE volume of 193.6m shares was heavily influenced, however, by trading in stocks about to pay dividends. Declining stocks outnumbered those advancing by a margin of almost six to one.

In addition to the dollar, another key influence on the session was the November department store sales figures. Although the pattern varied widely, a number of major retailers expressed disappointment with their performance during the month.

The figures rekindled fears that October's market crash would cause a sharp contraction in consumer spending which in turn would lead to a marked slowdown in economic activity next year.

Some retailers put the best face on the figures, however. "Sales were particularly encouraging in the final week of the reporting period," said Mr Harold Sills, chairman of Woolworth. "The improved trend of sales late in the month suggest the likelihood of a high level of holiday spending."

Stocks of retailers were dragged down none the less. Woolworth, whose sales rose 6.6 per cent in the month, fell \$2 to \$29¾, Wal-Mart (up 26 per cent) fell \$2¼ to \$21, Ames (up 17.5 per cent) dropped \$⅝ to \$10, Sears, Roebuck, the nation's largest retailer (up 0.7 per cent) lost \$1⅛ to \$30¾, J. C. Penney (up 4.3 per cent) gave up \$2⅝ to \$41¼ and K mart (up 6.6 per cent) lost \$2 to \$25½

A large chunk of trading volume was accounted for by stocks about to pay a divided as investors tried to capture the payout. Most spectacularly, Occidental Petroleum slipped \$⅛ to \$24½ on volume of more than 22m shares, almost one-ninth of the NYSE's volume.

Other dividend plays included New England Electric System, down \$¼ to \$23¼, and Pennsylvania Power and Light, down \$⅛ to \$32⅞.

Texaco, down \$1¼ to \$31⅞, and Pennzoil, off \$2½ to \$75½, were both buffeted by manoeuvrings to attempt a settlement of the legal battle. Mr Carl Icahn, who has recently bought a 12.3 per cent stake in Texaco from Mr Robert Holmes à Court, the Australian raider, has emerged as an influential figure in the legal battle.

First RepublicBank dropped \$2 to \$4⅞. The largest bank holding company in Texas said it would report a fourth-quarter loss of \$325m to \$350m, taking its full-year loss to more than \$650m. It also halted dividends on its common shares.

E. F. Hutton picked up \$½ to \$27⅞ on heavy volume of more than 3m shares after Shearson, up \$⅛ to \$15⅛, hammered out a definitive agreement to buy the investment dealer. Other brokerage houses were lower. Salomon fell \$¾ to \$17, Morgan Stanley was off \$2 to \$41, Paine Webber Group fell \$¾ to \$15⅝ and First Boston was unchanged at \$23.

Wall Street's credit markets benefited as much from the poor equity markets than from the dollar's pick up with, for example, three-month Treasury bills falling some 6 basis points to a bond equivalent yield of 5.44 per cent. By late afternoon the Treasury's benchmark 8.75 per cent 30-year bond was up 7/32 of a point to 98⅝, yielding 9.04 per cent.

The Federal Reserve intervened somewhat more aggressively than expected due to overnight system repurchases, helping to keep the Fed Funds at 6⅞ per cent, stubbornly above the Fed's apparent target for the rate at which banks lend reserves to each other.

Canada

TRACKING a sharp decline on Wall Street, stocks in Toronto posted steep declines as most sectors turned downwards.

Among declining gold issues, Placer Dome lost C\$1 to C\$19⅞, Lac Minerals fell C\$½ to C\$13¼ and Echo Bay declined C\$1¼ to C\$30¼.

In mines, Noranda fell C\$1 to C\$21½, Inco dropped C\$1⅛ to C\$21⅜ and Falconbridge lost C\$⅜ to C\$20.

Forestry issues were little changed. MacMillan Bloedel was unchanged at C\$20¼, Abitibi-Price was unchanged at C\$24½ and B.C. Forest Products gained C\$¼ to C\$19.

Banks were mostly lower. Royal Bank fell C\$⅜ to C\$27¼, Toronto Dominion dropped C\$1⅛ to C\$25¼ and Bank of Nova Scotia slipped C\$⅛ to C\$12.

In energy issues, Texaco Canada firmed C\$⅛ to C\$27¾, Shell Canada dropped C\$⅝ to C\$32¼ and Imperial Oil class A declined C\$½ to C\$52.

EUROPE

Bundesbank holds centre stage

EUROPEAN investors spent most of yesterday waiting for the Bundesbank to end its weekly meeting. Most major bourses were virtually at a standstill as all eyes focused on West Germany, but the news of interest rate cuts in several European capitals came too late for most markets, leaving prices little changed or lower.

FRANKFURT hung on a word from the Bundesbank. The possible decisons on credit policy preoccupied the market and trading was very thin. News that the Bank of England had cut its money market dealing rate spurred a late rally but the West German reductions came after the close.

The Commerzbank index, calculated at midsession, lost 2.0 to 1,335.2 and the Boersen-Zeitung 30-share index shed 1.9 at 279.07.

Banks were helped by better than expected 10-month figures from Deutsche Bank, which added DM2.50 to DM412.

Cars, dented by uncertainty about the dollar, all ended lower. Daimler fell DM7 to DM628.50, VW dropped DM1 to DM239, BMW lost DM3.50 to DM431.50 and Porsche slid DM14 to DM426.

Blue chip Siemens eased DM5 to DM381, AEG slipped DM2.20 to DM227.10 and high-tech Nixdorf lost DM1 to DM546.

The bond market almost ground to a halt as traders waited for the Bundesbank council to end its meeting.

AMSTERDAM rallied after news of interest rate cuts in Europe, but a whole-hearted upswing was prevented by falling prices on Wall Street.

The CBS Tendency index was unchanged at 63.0 after recovering from an early decline. The weighted ANP-CBS index slipped 2.1 to 203.1 but calculated at midday it did not reflect the late advance.

Royal Dutch closed 60 cents higher at Fl 193.60, Unilever gained 30 cents to Fl 100.50, Akzo rose Fl 1.10 to Fl 86.30, while KLM was unchanged at Fl 27.00. Philips, howver, slipped 50 cents to Fl 28.00 despite forecasts of rising sales to China.

Financials were boosted by the rate cuts and banks picked up after recent losses. Insurers were mixed.

ZURICH eased in quiet trading after the dollar failed to rise above SFr1.35. For much of the day, investors hugged the sidelines awaiting news of interest rate cuts, but the announcement of a ½ point discount rate reduction to 2.5 per cent came too late to support Swiss share prices.

The Credit Suisse index shed 5.7 to 425.4 as most sectors posted modest retreats.

Banks were little changed but insurers moved broadly lower.

Among industrials, Brown Boveri was unchanged at SFr1,730, Oerlikon-Buehrle edged down SFr20 to SFr1,120 on profit-taking after recent gains and Elektrowatt was unchanged at SFr3,050.

BRUSSELS fell to a low for the year as the Belgian cash market index lost 17.75 to 3,653.07. The weak dollar continued to prey on the market and investors kept away from the floor awaiting news of rate cuts which came too late to lift flagging spirits and share prices.

Blue chip Petrofina resumed its downward course after Wednesday's brief respite. The share price fell a further BFr50 to BFr8,030, while chemical Solvay dropped BFr80 to BFr9,670 and UCB eased BFr50 to BFr7,090.

STOCKHOLM surged just before the close as buyers flooded the floor after interest rate cuts in many European capitals.

MILAN swung lower with domestic factors continuing to exert more influence on the market than international trends. Tensions between the Government and trade unions over economic strategy dragged down share prices and the MIB index lost 7 to 719 in lacklustre trading.

MADRID dropped as engineerings, constructions and chemicals moved sharply lower. The general index lost 4.04 to 203.46, just 0.53 points above the year's low posted on May 8.

HELSINKI slipped in another day of very quiet trade. The Unitas index index dipped 0.8 to 571.8.

London

THE LONDON stock market gave a somewhat downbeat response to the concerted move by European countries to cut interest rates, *writes Terry Byland in London.*

With the dollar moving uncertainly, and the pound unable to sustain an early gain, shares in Britain's major exporting companies turned back from a strong start to close with mixed changes.

The reaction from UK bond markets, however, was more distinct, with index-linked issues rising sharply as concern over domestic inflation sharpened in the wake of the reduction in British interest rates.

The FT-SE 100 index, which had gained 21 points as the market awaited confirmation of the cut in West German rates, ended with a loss on the day of 1.9 at 1,588.4.

Turnover in the equity sector remained thin although there was a batch of special features, which included the surprise withdrawal of interest in MK Electric, a UK manufacturer, by Siemens of West Germany.

Rate cuts and bid talk lift French spirits

FROM PAUL BETTS IN PARIS

THE PARIS bourse rallied strongly just before the close yesterday on the impetus provided by the Europe-wide interest rate cuts. But the news came too late for the market to recover all its early losses.

The main index, the *indicateur de tendance*, finished the day 0.8 per cent lower after being nearly 2 per cent down before the joint interest rate action by the Bundesbank and the Banque de France. The CAC General index ended 4.1 down at 286.

The close dialogue between the French and West German monetary authorities, who intervened jointly on interest rates for the third time since November 5, lifted spirits in what has generally been a gloomy and uncertain atmosphere in the French markets.

Some relief, however, has come from individual stocks which are now again at the centre of takeover speculation.

Among potential takeover candidates, attention in recent days has focused on the Martell cognac group and on Telemecanique, the French factory automation equipment maker.

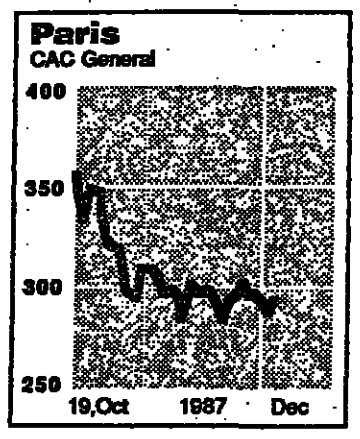
Martell shares, which leaped FFr125 yesterday to FFr1,945, are still well down on the year's high of FFr2,269 last July, but they have been heavily traded in recent sessions. Speculation about possible buyers of the shares has centred on Grand Metropolitan, the UK hotels, brewing and wine and spirits group, which acquired a 10 per cent stake in the French company last July, as well as on the Canadian drinks group Seagram.

Telemecanique has also long been at the centre of takeover rumours with suggestions that the Schneider industrial group was eyeing the company. Telemecanique, which has seen its shares rise again over the FFr3,000 mark, has sought to reinforce its defences against a possible hostile bid by issuing new equity warrants aimed at boosting the stake of friendly shareholders in the company's capital.

The Bouygues construction group, which controls TF-1, the leading French television network, has also been the subject of takeover rumours in recent weeks. Interest in Bouygues appears to focus mainly on TF-1, which is now well ahead in the French television ratings league. Bouygues finished FFr29 lower yesterday at FFr903.

The market expects takeover speculation to intensify as a result of the collapse of share prices and the vulnerability of a number of French companies.

However, as one market maker suggested yesterday, "the real fireworks are likely to happen after next spring's presidential elections, although we are likely to see quite a lot of action even before the poll in coming months."



ASIA

High-techs continue to lose ground

Tokyo

CONTINUING uncertainty on foreign exchanges and cautious anticipation of interest rate news from West Germany dampened buying interest and depressed large-capitals and high- techs in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The 225-issue Nikkei stock average shed 107.33 points to 22,808.16 on a turnover of 393m shares, down from 532m shares the previous day. Declines outnumbered advances by 504 to 373, with 141 issues unchanged.

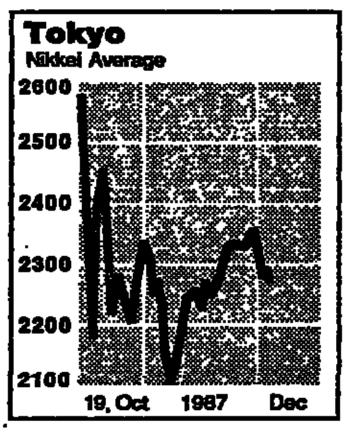
Among the best performers were smaller-capital, speculative issues, purchased mainly by minor securities companies and individual investors for quick profits. Institutional investors and business corporations remained on the sidelines.

Nihon Nosan Kogyo posted a maximum daily gain of Y100 to Y640 on expectations of better earnings due to the high yen.

Reflecting firmer prices for alloys and non-ferrous metals, Pacific Metals advanced Y22 to Y435 after a surge of Y35 to Y448 at one stage. Nippon Metal Industry gained Y11 to Y561 early in the session but closed Y3 lower at Y547 on profit-taking.

Kagome soared Y100 to Y1,610, Inui Steamship climbed Y90 to Y1,720 and Gajoen Kanko advanced Y80 to Y2,040 on speculative buying for short-term profits in the absence of market leaders.

Shinko Electric topped the most active stock list with 20.14m shares traded and firmed Y10 to Y525 on growing interest in the development of a prototype car that may be put to practical use in the near future. Konica Corp. was also active and advanced Y24 to Y864.



Large-capitals continued to lose ground in the absence of encouraging signs from abroad. Nippon Steel, third busiest with 11.21m shares, eased Y5 to Y423, Kawasaki Steel slipped Y5 to Y342 and Ishikawajima-Harima Heavy Industries shed Y20 to Y610.

The high-tech sector also slumped. Hitachi weakened Y20 to Y1,150, Toshiba slid Y14 to Y647 and Mitsubishi Electric shed Y21 to Y545. Of the high-tech issues, only four were among the 30 most active stocks, with their popularity waning as concern over export earnings increases.

Matsushita Electric Industrial and NEC declined Y30 each to Y2,100 and Y1,900 respectively, while Nippon Telegraph and Telephone (NTT) added to recent declines with a Y30,000 fall to Y2.47m.

Power and gas utilities, properties and financials also finished weaker. Tokyo Electric Power shed Y20 to Y6,130, Mitsui Real Estate Development was down Y30 at Y1,720 and Nomura Securities fell Y90 to Y3,190.

Bonds fluctuated in a narrow range in extremely thin trading. Dealers and institutions took to the sidelines awaiting the outcome of the weekly meeting by the West German Bundesbank council.

The yield on the 5.0 per cent government bond maturing in December 1997 was little changed, ending at 4.625 per cent against the previous close of 4.600 per cent.

In Osaka, the Osaka Securities Exchange (OSE) stock average turned down 76.09 points to 23,125.37. Selective interest in some western Japanese stocks was insufficient to offset the lower trend. Volume increased by 5m shares to 81m shares.

Shimano Industrial posted the maximum daily rise of Y100 to Y840, while Sakai Chemical Industry plunged Y80 to Y2,670.

Australia

OVERSEAS selling and the fall in Tokyo sparked a downturn in Sydney, where the All Ordinaries index finished 20.9 lower at 1,286.3.

Situation stocks were generally lower, with Pioneer Concrete off 5 cents at A\$2.75 after its agreement to buy nearly 24m shares in Ampol, its petroleum subsidiary, from Bell Resources. Ampol was unchanged at A\$3, while Bell Resources and Bell Group both shed 3 cents to A\$1.63 and A\$1.82.

In the mining sector, strong foreign selling took Western Mining Corporation down 28 cents to A\$5.54, while BHP ended 36 cents easier at a year's low of A\$6.60. CRA was off 40 cents at A\$5.30.

Golds showed losses amid worries that a cut in West German interest rates would help the dollar to the detriment of bullion prices. Poseidon shed 25 cents to A\$3.70 and Emperor was down 20 cents at 4.70.

Singapore

FOREIGN FUNDS and local investors stepped up the selling pressure in Singapore and the Straits Times industrial index dropped below the important 780 level, shedding 35.73, or 4.6 per cent, to 746.72.

Turnover rose to 28.6m shares from 18m the previous day as worries about the falling dollar brought out the sellers amid gloom over the poor performances in New York, Tokyo and Hong Kong. Buying support failed to emerge until the end of the session, when a few blue chips came off their lows.

The main losers included Cold Storage, 38 cents lower at S\$3.22, Cerebos, down 36 cents at S\$3.60, and National Iron, 26 cents easier at S\$4.26.

Singapore Airlines ended with a 25-cent loss to S\$8.55 and the banks were all easier, with DBS shedding 26 cents to S\$8.20 and OCBC off 15 cents at S\$6.25.

Hong Kong

UNCERTAINTY over the direction of the dollar and West German interest rates kept trading subdued and depressed in Hong Kong, with the only movement coming as investors cut down their share portfolios.

The Hang Seng index finished 43.40 lower at 2,057.43 and the Hong Kong index lost 31.82 to 1,348.15 in thin turnover worth HK\$594m, slightly more than on Wednesday.

Properties were the worst hit stocks. Cheung Kong led falls with a 20 cent loss to HK\$6.10, while its associate Hutchison Whampoa shed 15 cents to HK\$6.45.

Sun Hung Kai Properties lost 25 cents to HK\$7.95. It denied rumours that it had agreed with Jardine Matheson to buy a stake in Hongkong Land, off 30 cents to HK\$6.65. Jardine, which holds 26 per cent of Hongkong Land, dropped 20 cents to HK\$9.10.

SOUTH AFRICA

THE FIRM bullion price lent some support to gold shares in Johannesburg but highly selective demand and a thin market caused some light losses.

The gold index was down 26 to 1,828 and industrials were little changed with the index up just 1 at 1,477.

Among gold stocks, Vaal Reefs fell R5 to R370, Randfontein dropped R4.50 to R300.50 and Freegold closed 50 cents lower at R45.

Driefontein shed R1 to R41.50, Kloof gave up 50 cents to R45 and Elandsrand rose 50 cents to R370.

Platinums and diamonds drifted lower. Rustenburg shed 85 cents to R32.50 and De Beers lost 75 cents to R31.

In mining houses, Anglo American slid 75 cents to R63.25 and Gencor was unchanged at R52.50.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY DECEMBER 2 1987					TUESDAY DECEMBER 1 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (89)	98.68	−0.5	80.74	93.47	4.40	99.18	80.81	93.74	180.81	85.80	93.15
Austria (16)	93.01	−0.5	76.10	79.72	2.61	93.47	76.16	80.05	102.87	85.53	96.88
Belgium (48)	98.43	+0.1	80.54	84.47	5.62	98.31	80.10	84.25	134.89	96.19	97.60
Canada (127)	103.79	+0.8	84.92	98.68	3.14	102.98	83.91	97.95	141.78	98.15	100.54
Denmark (38)	112.36	+0.3	91.93	97.38	3.04	112.08	91.32	96.99	124.83	98.18	99.93
France (120)	84.23	−0.5	68.92	74.26	3.70	84.66	68.99	74.54	121.82	77.39	101.83
West Germany (93)	75.84	+0.4	62.05	65.15	2.93	75.55	61.56	64.77	104.93	68.91	99.18
Hong Kong (46)	81.70	−0.4	66.85	81.47	6.02	82.01	66.82	81.77	158.68	75.82	95.63
Ireland (14)	99.74	−0.5	81.61	87.40	5.20	100.27	81.70	87.59	160.22	96.20	94.96
Italy (94)	80.24	+1.0	65.65	73.11	2.62	79.47	64.76	72.20	112.11	72.04	97.42
Japan (457)	139.60	+0.4	114.22	117.10	0.59	139.03	113.29	116.84	161.28	100.00	95.45
Malaysia (36)	100.40	−0.6	82.15	96.57	3.79	101.03	82.32	97.01	193.64	98.24	99.72
Mexico (14)	115.92	−3.1	94.85	288.33	0.99	119.59	97.45	310.54	422.59	99.72	95.06
Netherland (37)	92.46	−1.6	75.65	78.54	5.75	94.01	76.60	79.57	131.41	87.70	100.28
New Zealand (20)	76.85	−2.2	62.88	63.29	5.35	78.56	64.02	64.26	138.99	75.99	92.43
Norway (24)	101.22	−0.3	82.82	88.17	3.10	101.56	82.75	88.39	185.01	96.03	100.99
Singapore (27)	91.48	−0.6	74.85	85.43	2.80	92.05	75.01	86.00	174.28	90.19	99.95
South Africa (61)	147.19	+1.3	120.43	96.78	4.48	145.28	118.38	94.81	198.09	100.00	104.10
Spain (43)	118.21	−1.9	96.72	99.85	4.13	120.53	98.21	101.35	168.81	100.00	93.03
Sweden (34)	91.71	−2.3	75.04	81.43	2.82	93.91	76.52	82.96	136.64	88.50	99.25
Switzerland (53)	80.31	−0.5	65.71	67.31	2.47	80.72	65.78	67.59	111.11	73.65	98.60
United Kingdom (332)	117.73	+0.4	96.33	96.33	4.81	117.23	95.53	95.53	162.87	99.65	93.68
USA (582)	95.16	+0.5	77.86	95.16	3.87	94.66	77.13	94.66	137.42	92.83	105.21
Europe (946)	97.17	+0.0	79.51	82.09	4.12	97.12	79.14	81.79	130.02	92.25	96.94
Pacific Basin (675)	135.83	+0.4	111.14	114.89	0.80	135.34	110.28	114.67	158.77	100.00	95.38
Euro–Pacific (1621)	120.40	+0.3	98.51	101.80	1.88	120.08	97.85	101.55	143.65	100.00	95.99
North America (709)	95.62	+0.5	78.23	95.38	3.83	95.10	77.49	94.86	137.55	93.20	104.96
Europe Ex. UK (614)	84.42	−0.3	69.07	73.26	3.51	84.65	68.98	73.29	111.97	78.89	98.97
Pacific Ex. Japan (218)	90.25	−0.6	73.84	85.98	4.87	90.78	73.98	86.34	164.03	83.17	94.44
World Ex. US (1823)	120.10	+0.3	98.27	101.81	1.95	119.76	97.58	101.52	143.38	100.00	96.24
World Ex. UK (2073)	109.75	+0.4	89.79	99.94	2.35	109.35	89.10	99.62	138.82	100.00	100.32
World Ex. So. Af. (2344)	110.20	+0.4	90.17	99.53	2.57	109.81	89.47	99.18	139.47	100.00	99.70
World Ex. Japan (1948)	96.48	+0.3	78.94	90.56	3.98	96.15	78.35	90.14	134.22	95.64	101.78
The World Index (2405)	110.44	+0.4	90.36	99.55	2.59	110.03	89.66	99.19	139.73	100.00	99.72

Base values: Dec 31, 1986 = 100

Latest prices were unavailable for this edition.

SECTION III

FINANCIAL TIMES
SURVEY

Shock waves from the stock market crash arrive just as the industry has been enjoying rapid growth, writes **Charles Batchelor**. Yet if exit routes have been narrowed, there may also be benefits, as the valuations of unquoted companies fall to more realistic levels.

Venture Capital

CONTENTS

Brave face, long view

THE STOCK market crash of 1987 inevitably took a heavy toll of listed companies around the world. The venture capital industry and the unquoted companies it backs may not have been in the front line, but they too have felt the shock waves.

The Unlisted Securities market is now less attractive to both entrepreneurs and venture capitalists as a way of realising their investments, while the alternative - a sale to corporate purchaser - may prove less lucrative now that the big buyers have less money to spread around.

But if the exit routes have been narrowed, there are also benefits for the venture capital industry from the crash. The valuations of unquoted companies have fallen in line with those of listed groups to what most venture capitalists feel are more realistic levels.

Unquoted companies could normally expect to be valued at a discount to those with a public listing, but the pre-crash euphoria had pushed many valuations up close to the heady levels prevailing on the USM. This came to an abrupt end on October 19, the day of the crash.

"We had one company pull out of negotiations on the morning of the crash, saying they could finance the deal more advantageously elsewhere," recalls one London-based venture capital manager. "They came back the same afternoon to say they hadn't been able to do a deal. We said we were ready to talk but that naturally we couldn't offer the same terms as a few hours earlier."

This picture has been repeated throughout Europe and the US. "In a boom, entrepreneurs take an optimistic view of pricing and on the speed with which they can go to market," says Mr Michiel de Haan, chairman of the European Venture Capital Association (Evca). "But we are a long-term industry and during a downturn we can buy into companies to get a good rate of return."

If the venture capital industry generally is putting a brave face on the market downturn, the picture for individual managers will depend on the stage they are at in their investment cycle. Those with a portfolio containing companies approaching flotation or sale will have to wait a little longer to take some of their profits, though they may also be able to lock into additional long-term earnings by providing further interim funding.

But venture capitalists who were about to raise additional funds will be the hardest hit. They may find investors unwilling to commit themselves in a period of market uncertainty. "We were lucky to raise our money before the crash," says Mr Ronald Cohen, of Alan Patricof Associates, which was completing a £70m-plus fund-raising exercise when the markets slumped. "I would not like to start now."

A lot will depend on how attractive unquoted investments appear to investors now that quoted stocks have fallen so low. If bargains can be picked up among quoted companies - and some US commentators have singled out cash-rich biotechnology companies as being of particularly good value - will investors be prepared to devote the time and effort to cultivating unlisted businesses?

The stock market crash has come at a time when the venture capital industry has been enjoying rapid growth, both in the established markets of the US and Britain and in continental Europe where it is a more recent arrival.

On the continent, the venture capital pool - funds already invested or available for investment - rose by 39 per cent to an estimated Ecu10bn (£7bn) at the end of 1986, according to figures compiled by accountants Peat Marwick McLintock for the Evca yearbook. The UK still accounts for nearly half of this figure, though the rapid expansion of venture capital in a number of continental countries has chipped away at Britain's market dominance in recent years.

Italy recorded the fastest rate of growth in 1986 - of 103 per cent over 1985 - though the industry in that country is still small. Belgium and Germany also recorded rapid rates of growth, though, after Britain, the two most highly developed venture capital markets are The Netherlands and France.

Unsurprisingly, venture capital showed an uneven rate of development in Europe. Some countries lagged because of unsympathetic government treatment, while others - until the crash, at least - showed signs of overheating, with too many venture capitalists chasing too few deals.

In sum, though, the European venture capital industry is now nearly half as big as that in the US - the home of this financing technique, where the size of the market pool is put at more than $25bn. In the first half of 1987, US venture capitalists raised a further $1.41bn, an increase of 42 per cent on the first six months of 1986.

In the UK, venture capital remains buoyant with venture managers already establishing new records for the amount of finance raised. In the first nine months of 1987 they raised £622m from institutions and the public, nearly two and a half times the amount raised in the whole of 1986 and more than the combined totals for 1985 and 1986.

At least 10 more funds were due to be completed before the end of the year, though some will have probably had to revise downwards the sums they can expect to raise in the light of the crash.

The rapid growth of the venture capital industry in the UK has not been without its controversy. As the industry has matured there has been some concern that it may be slipping into a premature middle age - avoiding the high-risk high technology investments which have traditionally marked venture capital in the US, and putting too much money into unventursome areas such as management buy-outs.

The completion in early October of the £715m buy-out of the MFI furniture group from Asda, the food retailer, set a new record and emphasised the scope for the buy-out technique. British venture capitalists committed 44 per cent of their funds to buy-outs last year, while their counterparts in the US put just 17 per cent of their funds into this type of deal, according to Venture Economics.

The corollary of this was that the UK venture managers put 23 per cent of their funds into start-ups and other early-stage investments, while the Americans made 35 per cent of their investments at the early stage.

Another major problem is the limited size of the UK market for high technology products. In the US a high-tech company could reach a substantial size without developing any overseas markets, but a British - or any other European company - would have to export on quite a substantial scale to achieve this scale of operation.

And even though the US provides a sufficiently large home market to support the growth of high-tech ventures, American venture capitalists have also increasingly targeted lower-tech companies for their investments in recent years. This is partly the result of problems in the electronics area, which suffered a downturn in the early 1980s, and partly because competition between venture capitalists for the best deals was pushing up prices to unacceptable levels.

Of course, not all UK venture capitalists share the view that the industry has become risk-averse. While large sums are going into buy-outs, the amounts of money available to the industry have grown in proportion, and there is still a lot left over for the earlier-stage venture.

Those funds that have backed early-stage, high-tech companies will continue to do so, says Mr Cohen. The problem has been that, as more and more organisations have come into venture capital, the character of the industry has changed and its image for risk-taking has been diluted.

This growth in the numbers of venture capital teams - there are now about 120 in the UK, compared with just a handful 10 years ago - appears likely to flatten out. Some people inside the industry have been forecasting for some time that the smaller funds, those of under £10m, would find it harder to achieve economies of scale and would be forced to merge.

There are now signs that this is starting to happen. In September, GT Management, the financial services group, set up GT Venture Investment Company, which, in part, intends to buy the portfolios of unquoted companies which other City institutions want to sell because they have become too time-consuming.

Pension fund trustees can prove quite difficult if an investment fails - even if the money involved is very small in terms of the total portfolio - and many fund managers might welcome the opportunity to dispose of a troublesome portfolio, says Mr Rhoddy Swire, a director of GT Management.

Innotech, a small venture capital fund set up by Mr David Sainsbury, finance director of the food retailing group, also decided to entrust itself to a professional management team when it became part of ECI International, a new £35m fund set up in October by ECI Ventures.

Some problems have been with the industry since it started in a big way in the UK at the end of the 1970s. One of these is the shortage of skilled managers available and willing to launch the sort of project that would be eligible for venture capital backing.

Nevertheless there are signs of change. Recently 3i polled 250 successful managers in mid-career, to see if they would be willing to move. Fifty responded, saying either that they had a proposition they wanted to discuss; that they wanted to buy out their company; or that they wanted to join with others to buy in to another company. "I would not have got that response 10 years ago," says Chris Woodward, 3i's marketing director.

CITICORP VENTURE CAPITAL

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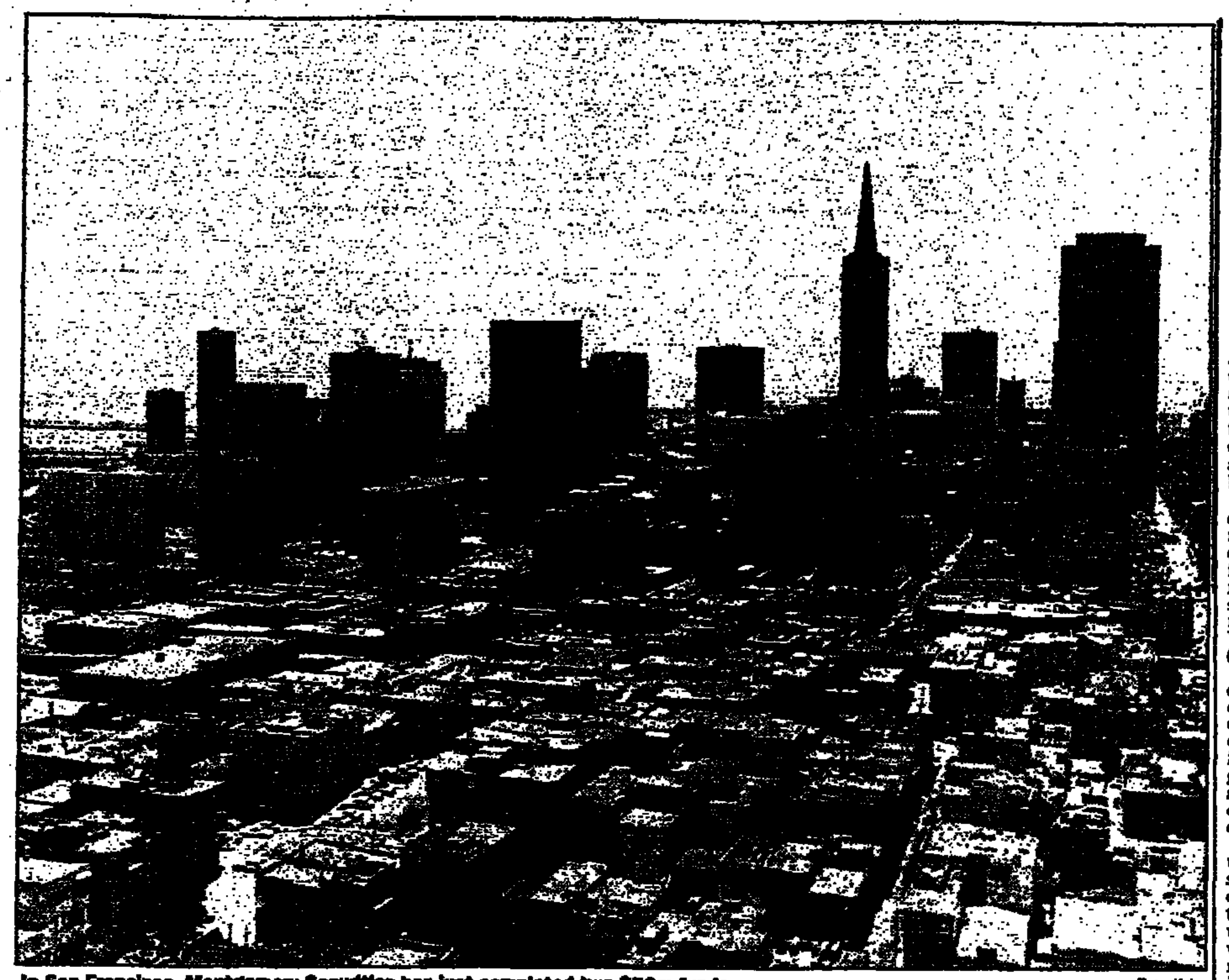
VENTURE CAPITAL 3



In San Francisco, Montgomery Securities has just completed two $50m funds Terry Kirk

The US

Risk-takers have whip-hand

FOR US venture capitalists, Black Monday was the day the market for initial public offerings (IPOs) collapsed. While other investors might look back on October 19 as the date of the market crash, the venture community suffered most from having the "exit door" through which it normally liquidates investments, slammed unceremoniously in its face.

Venture capitalists, and those who watch them, are still trying to work out what the impact of the "paralysis" of the IPO market will be, and how long the condition may last. Over the past month, with very few exceptions, initial public offerings have been cancelled or put on hold. For the companies involved, and for their venture capital backers, the sudden market change forced some fast reassessment of financing and growth plans.

The stock plunge hurt IPOs by depressing prices in general and driving investors away from the more volatile stocks of smaller capitalised companies in favour of more stable blue-chip stocks that are now selling at bargain prices.

Investors are just not interested in small new companies at the moment, underwriters complain. Rather than looking for opportunities, as they did prior to the market crash, investors are looking for ways to minimise their risks and are choosing the stocks of large companies with high liquidity, analysts say. Companies that brave the bear market with new stock offerings will be forced to accept lower prices than they did a month ago, investment bankers warn.

For venture capitalists, the collapse of the IPO market means that they must find alternative buyers or hold on to their portfolio companies for longer than planned. Will this lead to a shortage of venture funds? Probably not, according to Richard A Shaffer, publisher of Technologic Computer Letter, a widely read newsletter covering the financing of computer and electronics companies.

"Capital commitments to US venture funds are currently at a very high level, and at many of the largest funds little of that money has been invested," he notes. "Our guess is that, at the better funds, there is enough capital to carry portfolio companies through at least two or three years of severe recession."

The collapse of the IPO market may not be bad news for the venture funds, Shaffer and others suggest. "In high technology investment banking, initial public offerings may get the glamour, but the real profits often come from mergers and acquisitions," Shaffer notes.

When a company goes public, the venture capital backers must typically hold on to their stock for several months, gradually selling it or distributing stock to venture fund partners. In a merger or acquisition, however, venture capitalists often have the opportunity to cash in their holdings immediately.

While mergers and acquisitions may be attractive to venture capitalists, entrepreneurial company founders typically want to retain their independence and have a strong emotional commitment to the success of their companies. Persuading such people to "sell out" to a large corporation is never easy, investment bankers concede. "There is going to have to be an adjustment to reality among these people," one of them suggests.

As well as mergers and acquisitions, there is going to be an increase in private placements with financial institutions, suggests Joseph M Schell, director of corporate finance at Montgomery Securities, in San Francisco. "Some companies will go back to the venture capitalists to arrange financing to bridge the gap until the IPO market reopens," Mr Schell predicts. "Others will slow down their growth plans."

For new venture capital funds, such as the two $50m funds completed by Montgomery Securities last month, the opportunities presented by the bear market are unprecedented in several years. Lower stock market prices are being reflected in similarly lower valuations in the private sector, so the venture capitalists may be able to demand larger equity stakes for their money.

Before such a "buyer's market" develops, however, entrepreneurs must be persuaded that the current lower valuations of their enterprises are not going to improve in the near term. That will take some stability in the stock market, which few are ready to predict. "Right now we are in a Mexican standoff," one venture capitalist concedes. "The spread between the bid and sell prices for privately held companies is huge."

But the venture capitalists have the whip hand, and with greater competition for their investment dollars, they will be able to be more selective about the companies in which they invest as well as dictating the terms. Assessing the risks attached to new business proposals will, however, be more difficult than ever for venture capital investors.

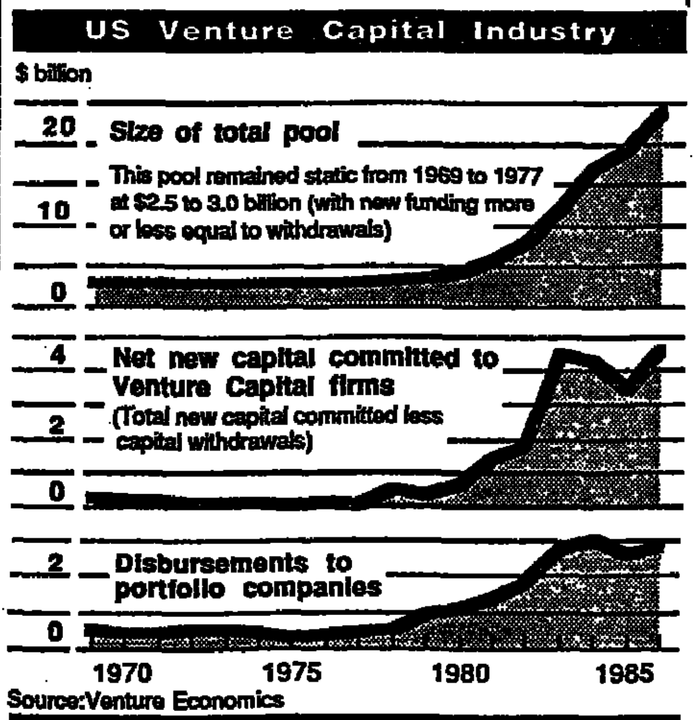
The possibility of a major recession in the US economy is a major concern. The US electronics and computer industries, in which a major portion of US venture capital is invested, are currently enjoying a strong recovery after a prolonged downturn. Most analysts had predicted strong growth for these industries in 1988, but the outlook is now far less certain.

Biotechnolgy companies, many of which are just begining to enter the phase of introducing commercial products, would appear to be less prone to general economic trends; but the "specialty retailers", in which many venture capitalists have placed investments over the past two years, could be very hard hit by a downturn in consumer spending.

Timing will be all-important for both venture capital investors and those who seek venture capital in the coming months, investment bankers say. Uncertainty about whether the stock market has "bottomed", and how quickly the IPO market may recover, will continue to present major dilemmas for investors and sellers alike. A continued decline in the stock market could also have an impact on investors in venture funds, making it more difficult for the venture capitalists to raise money.

Louise Kehoe

US Venture Capital Industry



Source:Venture Economics

Cross-bordering in Europe

Deals that lead to contacts in export markets

A SMALL but increasing number of venture capital deals put together in Europe involve investors from more than one country. The growth of the cross-border deal is seen by supporters of a united Europe as a means of breaking down national barriers.

With the 1992 deadline for the creation of a single European market fast approaching, it is only logical that the venture capital industry does its bit to remove constraints on business, says Mr Robert Coeurvorst, secretary general of the European Venture Capital Association (Evca).

The point of the cross-border deal is not primarily to raise equity finance in more than one country - the national venture capital pools should be able to fund most viable deals - but to give the company involved access to the advice and contacts of venture capitalists in potential export markets.

Since the small size of individual national markets in Europe slows the growth of high-tech companies in particular, anything which can be done to open up other European markets is welcome, this argument goes. It may help counter the natural inclination of most high tech companies to seek their first export sales in the wealthy, homogeneous US market.

Efforts to put together cross-border syndication take three main forms:

□ **The Venture Consort Scheme:** This is a European Community project to subsidise cross-border deals. The EC backed 18 projects in 1986 with a total of Ecu3.3m (£2.3m), but funding fell to Ecu1.9m this year. A four-man EC committee is studying 10 proposals for the current year, with final approval required before the commission takes its Christmas break.

Venture Consort provides up to Ecu200,000 for individual projects with an upper ceiling of 30 per cent of the total equity funding.

Evca is having to fight hard to maintain levels of funding from the EC, though in this, Venture Consort's second year, it has established the scheme as a formal EC budget item. Even so, only Ecu400,000 came directly from EC funds this year, the remaining Ecu1.5m being provided by the community's Task Force for Small and Medium Enterprises.

This does not reflect a lack of EC interest in the scheme, merely that the community has other priorities, claims Mr Coeurvorst. He nevertheless contrasts the small amounts sought for Venture Consort with the sums devoted to other EC budget items such as agriculture.

Evca has begun to lobby members of the European Parliament in an attempt to increase Venture Consort funding to Ecu4m in 1988.

A disadvantage of trying to raise Venture Consort backing is the administrative work involved. "Venture Consort is too complicated and involves too many papers," says Mr Gerard Tardy, managing director of Citicorp Venture Capital in France.

□ **The private networks** established by venture capital groups. These are expected to develop as the main source of cross-border deals. "Venture Consort was a good way to get things started, but we find it easier to work with our own partners than with a stranger," comments Mr Ronald Cohen of Alan Patricof Associates in London. "We know our partners and we have the same priorities."

Patricof, like several other international venture capital groups, has partnerships in France, the UK and the US. It also has plans to open an office in Germany. The various national partnerships have cross-holdings in each other and take mutually supportive stakes in the companies they back.

Patricof funds in the US and Britain have, for example taken a holding in Capital Taxifone, a start-up company which aims to install passenger telephones in London taxis.

Similarly, the Patricof partnerships in France and the UK have backed Nuggets, a French record and disc retailer, which was bought out of the Hachette publishing group by its managing director. Patricof believes the Nuggets formula might be exportable to the UK and Germany.

□ **Euroventures:** This is a Dutch-based venture, which is attempting to establish a Europe-wide programme of corporate venturing - the technique whereby large corporations back innovative small companies with funds and advice. Set up in 1984 by the Round Table of European Industrialists, which groups the industrial heads of large companies around Europe, the venture has got off to a slow start.

It has a central fund of £36m subscribed by 17 invstors, including Asea, Volvo, Fiat, Pirelli, Saint Gobain, Petrofina, Philips and Bosch. The aim is to foster contacts between the two sides to the deal, with the larger partner taking on the task of distributing the smaller company's goods or services, providing help with technology or management and possibly ultimately acquiring its junior partner.

Euroventures is still establishing a network of satellite corporate venturing funds around Europe. These funds are expected to raise additional money locally to take the total financing available to £93m.

In the UK and Ireland, Octagon Investment Management, a Business Expansion Scheme specialist, has been appointed to invest in growth firms in the information industries, including computing, telecommunications and publishing. Octagon expects to invest Euroventures funding in amounts of about £500,000.

Attempts to create transnational venture syndicates have begun to produce results. Such deals accounted for 11.3 per cent of all investments (by value) by Evca members in 1986, compared with just 7.4 per cent the year before. The value of cross-border syndications rose to Ecu157m from Ecu102m in 1985, according the latest Evca yearbook.

Charles Batchelor

Ronald Cohen: partners before strangers

International venture capital

Country	No of VC Firms	VC Pool (ECUbn)	Venture Capital Association
UK	120	5.7	Yes
France	90	1.3	Yes
Netherlands	60	0.9	Yes
West Germany	30	0.6	Yes
Ireland	8	0.6	Yes
Italy	15	0.3	Yes
Belgium	10	0.2	Yes
Spain	27	0.2	Yes
Sweden	30	0.2	Yes
Denmark	19	0.2	No
Switzerland	15	0.1	Yes
Austria	3	0.02	No
US	530	21.2	Yes
Japan	80	3.0	No
Canada	45	1.0	Yes

Source: Venture Economics

Venture capital pool/GNP

(UK=100)

UK	100
US	59
Netherlands	55
Japan	24
France	20

Source: Venture Economics

Japan

High-flying yen shoots meteors down to earth

VENTURE CAPITAL in Japan had a bad year in 1986. By October, 38 venture businesses had gone under, with combined liabilities of some Y115bn.

Five of these companies were so-called star businesses, whose meteoric beginnings had created a frisson of adulation in the local press, and whose failures prompted instant soul-searching.

Had the second wave of venture capital crashed on an overdose of optimism? Was too much money chasing goals that were too ephemeral? Was Japanese management hopelessly ill-equipped to be entrepreneurial?

The answer to all of these questions may be yes; but the immediate culprit was probably the high yen, which brought hard times for all export-driven businesses. In any case, the hubbub has mostly subsided now, for, however big the losses, the major venture capital firms in Japan suffered only a reduction in profit, not a major body blow.

Japan Associated Finance Company (Jafco), the country's largest venture capital firm, lost Y4.7bn last year. That meant that its return on investment went down from 40 per cent to 34 per cent.

Venture capital is something of a mutant creature in Japan. Many of the deals described as venture deals are low-risk, low return, or at most medium risk, medium return - a very different animal from the US prototype of two young entrepreneurs in a garage with a dream. Depending on who you talk to, venture capital in Japan might be described as either a promising business or a non-event.

The number of venture capital firms jumped from eight, in 1972, to 81 by 1983, with a combined investment of Y200bn by the end of 1985. But that doesn't prevent an analyst at a prominent American investment firm in Japan from saying: "There isn't any venture business here, that's the problem."

The 10 largest venture capital firms in Japan are all affiliated to huge securities houses or banks, which means there is plenty of investment money available, but investment policy is generally conservative.

Jafco, for instance, never funds start-ups or seed-level companies. "We invest afterwards, in second or third level companies," explained a senior executive.

Many of the venture companies are spin-offs from big companies, and it is the corporate affiliation, rather than the product, that sells the deal. "Our institutional investors would rather trust an organisation, an institution or corporation than an individual," the executive said.

That philosophy defines the investment climate for all but a minority of firms - and also explains the scarcity of truly entrepreneurial deals. Good management is very hard to get in venture businesses. The best and the brightest in Japan flock to the corporation, where lifelong security is the trade-off for a potentially stagnant career. (The Government is worried enough about the lack of entrepreneurial spirit to have backed something called Kanagawa Science Park, a kind of incubation centre for start-up activities.)

One of the most interesting exceptions to the risk-averse rule in venture capital investment is the leading independent venture capital firm - Schroders PTV, a joint venture between Schroder Ventures, a subsidiary of the UK merchant bank, and Pacific Technology Ventures Co, of California. This advises a combined venture capital fund of Y4.6bn.

PTV was founded in 1982 by the American computer publishing magnate Patrick McGovern, and merged with Schroders in 1985. The firm is run more or less as an American-style venture capital firm, with an investment policy of funding all phases of venture business, including start-ups. The company managed to recruit young entrepreneurial types with backgrounds in operations as well as finance, and boasts the capability, unique in Japan, to work closely with budding entrepreneurs, to turn the right idea into a viable business.

Schroders PTV may prove to be the wave of the future once the baby-boom generation in Japan encounters the frustration of too few top jobs in the still-cherished top corporations, and takes the great leap out of the corporation.

For now, its activities are decidedly avant-garde - and decidedly small scale, when measured against the giants like Jafco. Next year it plans to take its first company public, and that will probably be a closely watched watershed. In the meantime, to quote a popular Japanese proverb, those who want shade will choose the big tree.

Christine Doudna

But some smiles won't need that computer

Glyn Genin

Profile: **Aquilax**

Their computer helps dentists pick remedies

INDUSTRIAL ENTREPRENEURS are genuine mavericks in Japan, their numbers so few as to defy precedent-setting.

So when Zaiken Nishida and Kunio Morino, both 34, set out in their mid-twenties to join this rare breed, they followed a makeshift textbook logic: both were studying engineering, both were interested in the field of medical-related computers, and they shared entrepreneurial dreams.

They didn't have a product, or even a very refined idea for a product, but they came up with a five-year plan - their first of many, they hoped. They decided to spend five years preparing themselves (getting real-world business experience and, in the case of Nishida, also doing a masters programme at Tokyo University) while they pursued the "right" idea for their first venture.

After graduate school, Nishida took a job with the consulting firm of McKinsey and Co (he got its name out of "some book", looked up the number in Yellow Pages and went to apply for a job), while Morino went to the microcomputer firm Panafacom.

They met every two weeks to talk about their dream company. Then, in 1982, right on schedule, they quit their jobs and launched their new venture, then named Computer Assist Consulting Group, a company to design and produce computers for dentists.

Japan has a torturously complex system of national dental insurance, which requires dentists to fill in detailed treatment forms for every patient visit - a time-consuming operation made more onerous because very few dentists (most of whom are men) ever learn to type.

Originally Nishida and Morino thought they could develop a software programme that would simplify the process, but they soon realised that they also needed to develop new hardware, because the keyboard system of the standard personal computer was part of the problem. Their breakthrough idea was to develop a system where the dentist could simply touch the computer screen to fill in the blanks, and a secretary could then instruct the computer to take care of all invoicing.

In 1983 they raised Y1m through private sources (Y75m of which was a loan) to develop the new computer, and hired a young engineer named Akiro Sato to implement their ideas.

A dentist named Hideo Matsumoto also played a key consulting role: it was his idea that the computer be programmed with a kind of artificial intelligence that would provide the dentist with a computer display of possible treatments for the diagnosed condition. The fledgling company, housed in low-rent offices in northern Tokyo, survived on consulting fees while developing its product.

The prototype - named Aquilax I (after Akiro Sato, the computer's designer) - was unveiled in 1984. It was test marketed to a generally enthusiastic response, but there were problems: the system was too bulky for the small offices of Japan, the computer speed too slow, and the price (Y5.5m) too high for most of the market (the average dentist's revenue in Japan is Y36m a year). So Nishida and Morino went back to the drawing board.

They applied for a loan to do further R & D through Japan's Venture Enterprise Capital Association, a private association of venture capital firms, whose loans are guaranteed by the Government. Last October they introduced their refined product, Aquilax II - a more compact, faster computer, priced more accessibly at Y3m - to the marketplace and have since recorded some Y30m in sales. Next year's sales projections are for "a minimum" of Y200m; five-year projections are for Y2bn; and the 10-year goal is Y10bn - "if they do it right," says Aquilax board member Ken Fujii.

Fujii is a key player in Aquilax's future. He is an investment officer of Schroders PTV, the leading independent venture capital firm of Japan, and it was at his urging that his firm made a "substantial" investment in Aquilax last July. His boss, Nobuo Matsuki, managing director of Schroders PTV, had informally counselled Aquilax during the start-up years, but it wasn't until the young entrepreneurs had perfected their product that Fujii undertook an in-depth study of the marketing potential of the dental secretary computer.

Fujii's research convinced him that Aquilax was perfectly positioned to fill the "niche" market in dental computers. Computers are not widely used by dentists in Japan (only 10 per cent of dental offices had them by 1985), but Fujii concluded that Aquilax could win hearts and minds where competitors had *failed* - partly because of the excellence of the product, partly because of the vagaries of the Japanese dental system.

Each of the 47 prefectures in Japan has its own set of dental insurance forms, which means that any computer programme that would service the whole country efficiently would need to have 47 different versions of a basic model - an impossible volume for any software programme. But Fujii reckoned that, if Aquilax could format the forms for all the major metropolitan areas of Japan (Tokyo, Osaka, Nagoya, a total of 10 prefectures), it could get access to - *and eventually dominate - 80 per* cent of the total market.

This was large enough to be profitable, yet small enough (and troublesome enough) to ward off competition from the giants of Japanese technology. The game was to develop a marketing strategy that could penetrate a notoriously conservative target audience.

Aquilax had no real long-term business plan when it linked up with Schroders PTV, so this marriage of venture capital to venture business is so far a honeymoon saga. Fujii works very closely with the management of Aquilax, acting as a *de facto* marketing and sales manager (he was even instrumental in getting the company's name changed). The staff has increased to 20, and the biggest challenge now is to recruit a sophisticated sales force - never an easy task for a venture business in Japan, where even the brash young things are reluctant to forego the security of a large corporation.

But optimism is rampant among all the principals. The company also counts among its investors the man who is known as the "grandfather of venture capital in Japan", Dr Yaichi Ayukawa - a good omen by any lights. President Nishida's five-year forecast for his company includes managing a franchise of dental clinics. The dentist's computer was simply "the easiest place to start" the dream, he explains.

Christine Doudna

France

Spirits high despite liquidity problems

FRENCH VENTURE capitalists are finding that opting for safer investments can be riskier in the end.

The subsidiaries of banks and other institutions, which have concentrated on the theoretically less risky business of helping firms expand with a view to a market listing a few years later, have had more to lose from the crisis than their independent competitors.

The latter, focusing more on start-ups, acquired their participations at prices unrelated to the towering heights of the price-earnings ratios prevailing on the unlisted stock market or Second Marche until a few weeks ago. They consider themselves the only true venture capitalists, although they are still in the minority, both in absolute numbers and the volume of cash they handle.

Pierre Battini, president of the French Professional Venture Capital Association (AFIC), estimates that the 70-odd members now manage FFr11bn to FFr12bn (£1.1bn to £1.2bn) in funds, of which 80 to 85 per cent are invested.

The Socialist government was the first to give its backing to the industry, which went into vertical take-off in 1983 with the introduction of mutual venture capital funds (FCPR), the arrival of the US firm Alan Patricof and, depending on how venture capital is defined, the creation of the Second Marche.

Some practitioners may complain about how the business has shaped up in France, but taxation is not one of the issues. Apart from the FCPR, the Socialists later created a special status for venture capital companies (SCR), giving them tax exemption on income and capital gains from investments in non-listed French firms, as long as these investments represent at least 50 per cent of the total. Additionally, dividends by SCRs are taxed at only 15 per cent for corporations and 16 per cent for individuals.

What operators do complain about is the lack of liquidity in the Second Marche, even though 230 companies are listed and another 20 are waiting. "The problem is that most companies offer only the 10 per cent minimum to the public," said Jacques Mechery, a partner in Euroventures. "If 25 or 30 per cent were floated instead, prices would be more representative of true values and would fluctuate less wildly."

Several venture capital firms themselves are listed on the Second Marche, although one casualty of the crisis is that Compagnie Financiere du Scribe (CFS) decided at the last minute to postpone its introduction scheduled for November 23. "We will go ahead when the market improves," said Andre Harari. "We are concerned not about the index, but about the erratic behaviour of the market."

Another complaint is the limited range of financial instruments available to venture capitalists. Jean-Bernard Schmidt, managing director of Sofinnova, who returned to France a year ago after spending six years in the United States, commented: "There has been a lot of progress - we now have warrants and options, but we need other tools such as preferred stock and convertible notes."

Expansion capital has always represented a substantial chunk of the funds invested in France, and in the last couple of years has risen to about 65 per cent of the total, according to a study carried out by Peat Marwick for the European Venture Capital Association (Evca). The proportion channelled into start-up financing has slipped, but "seed" financing has grown, the study found, warning that the response rate to the questionaire was disappointingly low.

Banks and insurance companies continue to provide about half the funds, which is more than the EEC average, and industrial and commercial concerns are raising their share. Peat Marwick partner Norbert Andreae told a recent Evca congress that the French industry, although second or third largest in Europe, "remains Franco-French, despite the presence of major international venture capital firms. International syndications are still rare, particularly at the European level," he said. Advocating a more international approach, Mr Harari, of CFS asserts: "If an entrepreneur doesn't speak English or says the United States is too far away, the answer is 'no' immediately."

Views are unanimous that services hold the most promise in France, particularly distribution. After that, the mix is more varied, and includes health in its widest sense, luxury consumer goods, communications and computer services. There is also unanimity on prospects for leveraged management buy-outs (LMBOs), which now have their own French name and acronym, RES.

"A single person is not allowed to hold a majority, which runs counter to the French mentality," says Alain Celerier, of Team Gestion, one of the five venture capital firms specialising in LMBOs. "But new provisions on consolidated accounts in the 1988 budget should help."

LMBO prices have, of course, plunged recently. There were no takers for a computer services company when it was offered, even before the crisis, in September at a PER of 30 to outside investors and 15 to staff. It is now being offered at a much more realistic rate of nine. This is not necessarily seen as bad news, as lower prices will bring more deals within the reach of company personnel.

While the venture capital industry was trying to assess what the past few weeks mean to it, the economic daily, Tribune de l'Economie, caused a ruckus on November 19, when it published a front page article saying that the profession in France was in a malaise and, citing a number of staff changes, that it needed "a third wind". However, most sources seem to regard the problems as no more serious than in other sectors. "It depends on whether you see the bottle as half empty or half full," says Mr Battini. "Many of the personnel are going on to manage larger funds."

On a positive note, others point to the entrepreneurial spirit sweeping through France. Alain Le Gaillard, of Profinance, says: "The cultural revolution has taken a long time to come, but it has finally arrived. There will probably be a shake-out, but after that the professionals will be left."

The new generation of managers, brought up in the tough school of slow economic growth, is another positive factor for the future. "Anyway," declares Mr Battini, "creating one's own company is the last human adventure for those who will never go down the Amazon."

Barbara Casassus

Profile: **AMS Packaging**

Stoppers help to retain the sweet smell of success

PERFUME BOTTLE tops may seem an improbable idea for a venture business in France, but they looked the best bet when, armed with FFr50,000 (£5,000) and a sense of humour, Reinold Geiger decided to be his own boss.

After qualifying as an engineer in Zurich, living in New York and London, and holding a stake in an unsuccessful plastics and rubber distribution company in Paris, he expected to return to his native Austria as a well-behaved bourgeois, aged 30.

Instead, turning down a job with L'Oreal, he offered to manufacture a complicated multisection plastic top for their forthcoming Lancome fragrance, Magie Moire, a task that established manufacturers baulked at.

The idea sprang both from a marketing vision and a lack of capital. The only equipment he knew about and could afford were injection moulding machines. The problem was that, unbeknown to the top management, when he signed the contract with L'Oreal, he had neither machine nor factory. "I didn't lie to them - they never asked!" laughs Mr Geiger.

Nine months after the purchase of six machines and the start of production in 1978, he took a stand at a fragrance trade fair, displaying vast quantities of Magie Moire, still his only relevant product.

Visiting the stand, a senior L'Oreal director expressed a desire to visit the factory, which he did a few days later, being delivered by chauffeur-driven limousine to unprepossessing premises in an industrial zone at Cergy-Pontois, a new town north of Paris. Obviously surprised at the modest surroundings, he inquired where the previous plant had been, and blanched visibly when told that this was the first.

Eager to keep the machines operating, Mr Geiger took on any work he could find, at almost any price, to complement Magie Moire: household cleaning product tops and petrol tank caps were only two of the more mundane. He held on to his goal, however, having decided that fragrances offered considerably more potential than cars, pharmaceuticals or other industries using injection moulding plastics.

"There was no true champion of perfume packaging," recalls Mr Geiger. Existing manufacturers lacked the dynamism and innovation to keep pace with the changes in the market, particularly with those in the United States, which accounts for more than half of world luxury fragrance sales and was starting to create its own industry.

Despite having a prestigious client like L'Oreal, raising funds to set up AMS Packaging was not easy. He sought a FFr50,000 government grant to give him an initial capital of FFr100,000.

The application dossier took a week to complete and half a day to explain to about 10 bemused civil servants. Six months later, he was informed that he did not qualify because he was undercapitalised. Another FFr50,000 would do the trick, he was assured. So, needless to say, he borrowed the money and repaid it immediately from the proceeds of the grant...

On a financial tightrope, and encouraged by the Banque Monod, which gave him an overdraft of up to FFr700,000 but "wanted to sleep at night", Mr Geiger took a first round of venture capital in 1981, when turnover amounted to FFr17m.

Sofiparil, a subsidiary of the government-owned Industrial Development Institute, put up FFr270,000 of the capital of FFr1,070,000. It was bought out at the end of 1983, since AMS was then too big to qualify for Sofiparil funds, and made a 400 per cent profit.

A new partner, Sofinindex, a subsidiary of Credit National, the first venture capital firm, Sofinnova and Banque Francaise du Commerce Exterieur subscribed a total of FFr1,250,000, which included a substantial issue premium and convertible bonds and helped finance the present FFr30m AMS factory, also at Cergy-Pontoise. Sofinindex, with another firm, Sofindas, tripled its investment when it was bought out in March this year to prepare for a two-stage third round of financing before AMS was listed on the so-called Second Market in late September.

Credit National, Euroventures, Profinance, RO Capitalisation, and Cardinal PO together put up a FFr12m stake in April, and, with Compagnie Industrielle et Financiere de Presbourg, a subsidiary of Banque Arjil, another FFr25m in August, to bring capitalisation to a total of almost FFr50.5m.

However, the latest injection of funds was more to generate investor confidence than to fill a specific financial need, says Mr Geiger. All the paper was placed on the sale of 10 per cent of the stock, but nothing was able to prevent its falling below the September issue price of FFr36.

Perfume bottle-tops remain the mainstay of the business. Clients include Dior, Helena Rubinstein, Pierre Cardin, Saks Fifth Avenue, Yves St Laurent, and many other illustrious names, with custom-made designs representing about 60 per cent of output and "ready to wear" from the company's 200-odd moulds 40 per cent.

AMS is nonetheless branching out into new areas. In August, it acquired the Tours-based Polyflex from the St Gobain Group for FFr58.3m (financed from the listing), adding extrusion blow-moulded bottles and other plastic containers for mass-produced lines to its luxury products. Early next year, it will open its first factory abroad in New Jersey, to supply the US market, which now accounts for 45 per cent of turnover.

Exports absorb more than 70 per cent of output, backed by sales subsidiaries in Britain and West Germany. The British firm, which started operating a year ago, already turns over 40 per cent of the volume sold in France.

Beyond perfume bottle-tops themselves, AMS provides a turnkey service, co-ordinating the entire packaging from concept to delivery into the distribution system. It also makes cognac and champagne bottle-tops for the gift trade, is providing packaging for Sonia Rykiel products in Japan, and, in an effort to increase value added on mass market lines, is manufacturing luxury packaging for a household cleaning product.

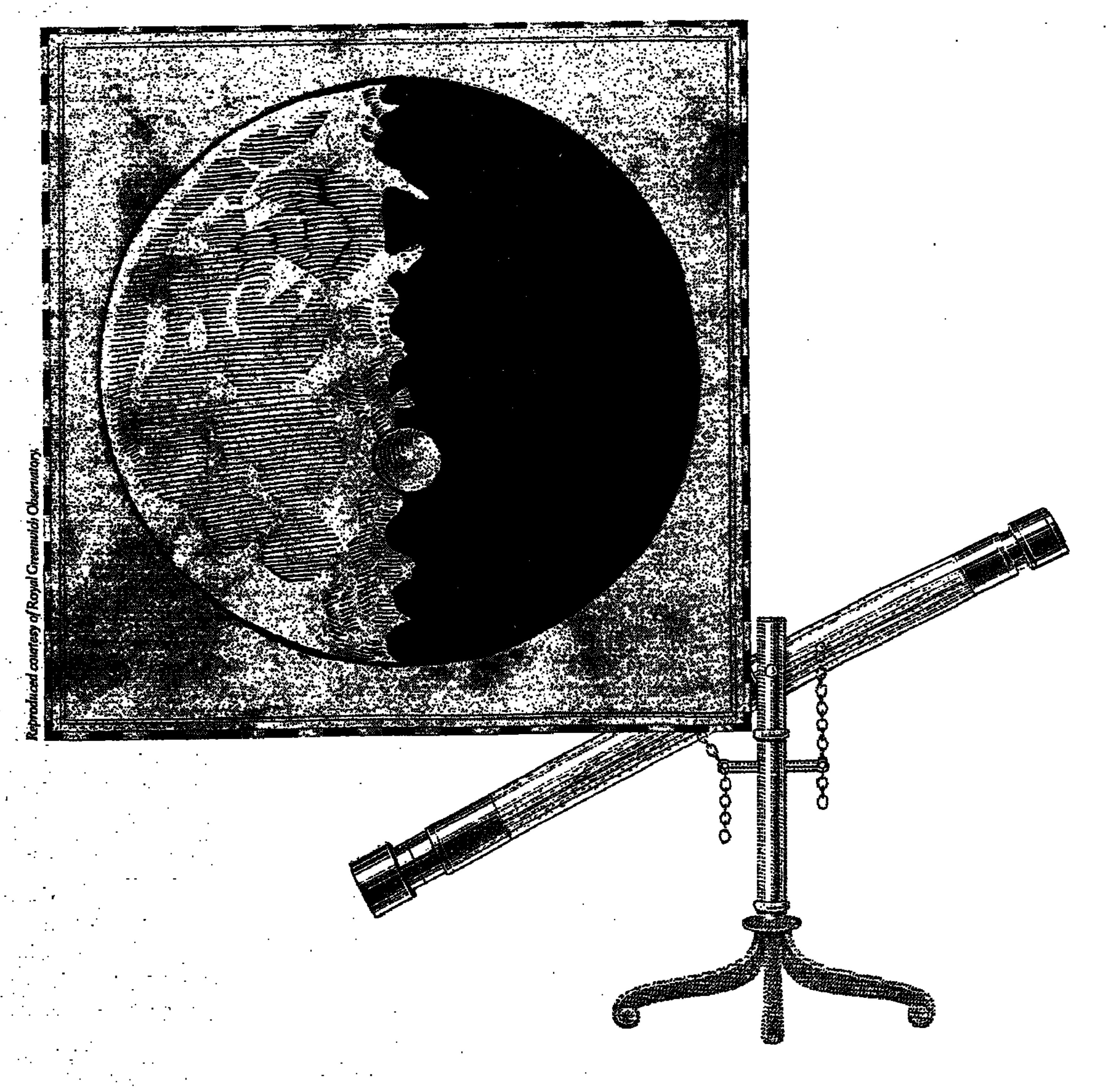
Reinold Geiger: custom-made designs for the illustrious

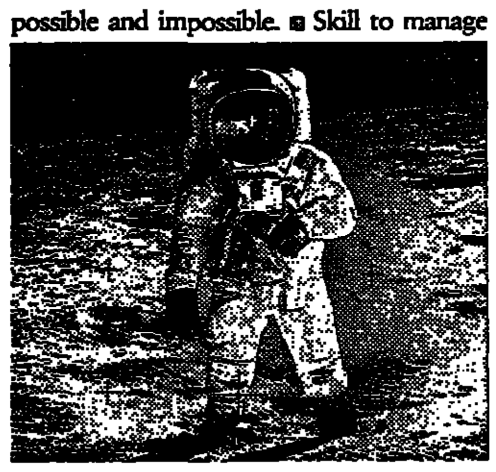
Automation remains limited. AMS invested in a FFr2.5m computer-aided design system two years ago, but is restricted in the use of technology by the fact that production runs on custom-made tops can be as little as 5,000 units.

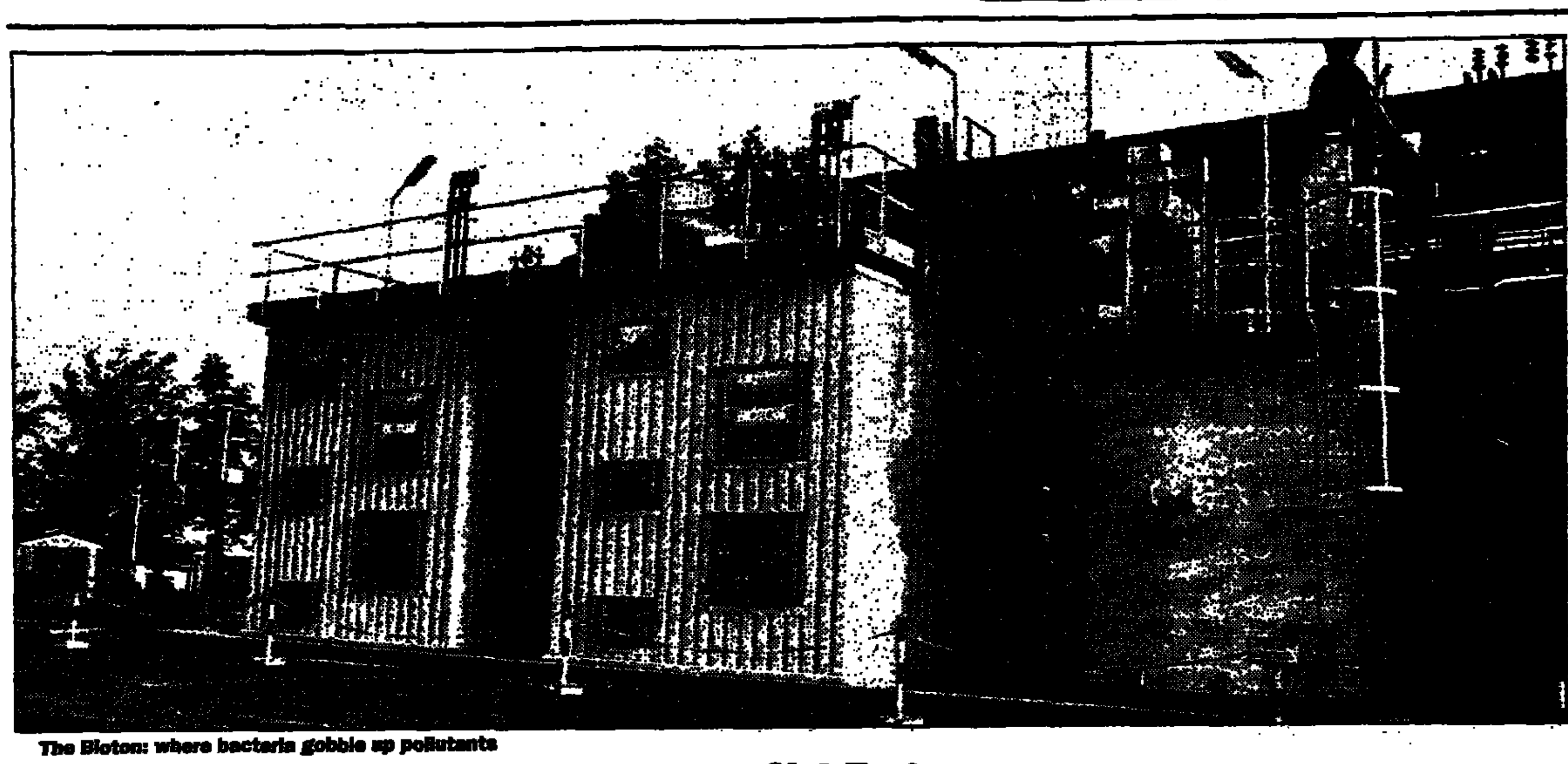
Even so, the manual component should never be as great as when catastrophe struck in 1982. The order for Estee Lauder's new Cinnabar fragrance involved a semi-automatic process for welding plastic on to metal that did not work after all. Locked into the schedule for the product launch, Mr Geiger had no choice but to hire 40 women to do the work by hand, an operation that cost him and Estee Lauder money and cast a chill over their relationship, until the technical problem was sorted out two years late.

None of this, he says, would have been possible without venture capital.

Barbara Casassus







The Bioton: where bacteria gobble up pollutants

Profile: ClairTech

Out of the red and into fresh air

BILLIONS OF munching bacteria are the key to success at ClairTech, a rapidly growing Dutch company that is being financed by venture capital.

ClairTech designs and sells industrial air filters that use hordes of hungry micro-organisms mingled with compost to gobble up pollutants in dirty and smelly air, leaving it clean and fresh.

The Utrecht concern was launched in late 1984 as the result of a marriage between a professor's scientific findings and an engineering firm's money.

"We aren't environmental freaks," explains Mr Hans Kuiper, ClairTech's director and one-man board of management. "We are a serious business trying to exploit a market created by and legislation."

Mr Kuiper and the other venture capitalists behind ClairTech believe the young concern is on the verge of a financial breakthrough into the black and out of the red. ClairTech hopes to earn between Fl 4m and Fl 10m, depending on the outcome of pending bids, in sharp contrast to losses approaching Fl 1m this year.

The "Bioton" process of biological air filtering was invented by Prof Simon Ottengraf, a chemical engineer at the Technical University of Eindhoven. In his laboratory he had developed a small-scale version of the Biofilter in a "black box".

While giving a speech at an Utrecht symposium in 1983, Prof Ottengraf showed his black box and challenged anyone in the audience to help him commercialise it.

DHV, a large Dutch engineering firm active in the environmental industry, eagerly answered the call and put up Fl 100,000 in seed money for feasibility studies, market research and pilot projects. By May 1986 the venture looked promising enough to attract a first round of venture capital - nearly fl 1m consisting of Fl 225,000 in equity and Fl 700,000 in a subordinated convertible loan.

The four shareholders were DHV with 48 per cent, Gilde Venture Funds (40 per cent), Bank Mess & Hope's venture capital arm (8 per cent), and Mr Kuiper with 4 per cent. A second round of financing, another Fl 1m, is expected soon, with the shareholders keeping their relative stakes. The fresh financing will pay for expansion abroad through a licensing system, and for improving the current technology.

With its small staff of seven, including Mr Kuiper, ClairTech only designs the filters and supervises installation of the filters from its modest office on the banks of the Amsterdam-Rhine canal. All the rest of the work - blueprint drawing and actual installation - is subcontracted to keep down overhead costs.

Initial turnover of Fl 300,000, in 1984-85, doubled to Fl 600,000 in 1986, and is expected to more than triple to Fl 2m this year. Start-up losses amounted to several hundred thousand guilders in the first year and doubled in 1986. By 1990 ClairTech aims to post profits of Fl 3.7m on sales of Fl 14m.

The patented Bioton air filter is a cylinder filled with layers of garden-variety compost coated with live bacteria and mixed with miniature plastic foam balls. Odoriferous air from factories, such as those making flavourings and fragrances, is piped into the cylinder, where the pollutants are eaten by the bacteria and converted into oxygen and other harmless by-products.

"The clean way to clean air," is ClairTech's motto, because the pollutants are disposed of without being transformed into another waste product that must be treated. Scrubbers, for example, wash pollutants out of the air with water, which must then be disposed of.

Among its customers ClairTech already counts blue-chip names such as PFW, a European flavouring maker that is a subsidiary of Hercules of the US; and Quest International, a flavours and fragrances manufacturer previously known as Naarden until it was taken over by Unilever. The Dutch company's main competitors are American Air Filters of the US and Flakt of Sweden.

ClairTech was ranked as the second fastest growing small company in the Netherlands in 1987 by Intermagazine, a business publication that began compiling a list of promising enterprises last year.

Mr Kuiper, 38 years old, formerly worked as a divisional head for Volvo of Nederland, the Volvo subsidiary that is majority owned by the Dutch government. He believes his experience as director in charge of 40 people has enabled him to avoid classic pitfalls of fledgling managers. What has proved a great difficulty, however, has been the pricing of the Bioton filter.

The company has sought to keep prices low enough to carve out a market share but high enough to recoup development costs. "We have priced too low sometimes," he admits, adding that customers must also recover their investment costs in pollution abatement equipment.

Another difficulty is the vulnerability to the whims of government legislation in protecting the environment. "We have a market only if governments pass anti-pollution law," he notes.

With most countries tightening environmental protection laws to a greater or lesser extent, however, the market looks promising. In crowded regions such as western Europe, where people and industry are cheek by jowl, the pressure to clean up the environment is growing rapidly.

ClairTech expects the Dutch market for gas purification, as the industry is known, to soar by more than 40 per cent to around Fl 50m in 1990 from Fl 35m now. "The next round of financing isn't necessary for survival," he adds. "We just thought it would be sensible to grow faster."

Laura Raun

The Netherlands

The private sector increases its share

VENTURE CAPITAL in the Netherlands is entering adulthood. Having survived its infancy in the 1970s and adolescence during the 1980s, it has matured into a serious industry that plays a significant role in financing young, growing companies.

In Europe, the Netherlands ranks second only to Britain in the amount of money available, and that pool is expanding by another 36 per cent to Fl 3bn this year. Market players are multiplying, entrepeneurs are gaining in sophistication, and divestment opportunities are widening.

"After rapid growth, venture capital has got firm ground beneath its feet," Mr E R Deves, chairman of the Netherlands Association of Venture Capital Companies (NVP), told the annual meeting this year. "Without exaggeration or overstatement there can be talk of a new industry."

Venture capitalism in the Netherlands began in the early 1970s, with the founding of provincially managed funds that were financed by The Hague and aimed at promoting economic growth in lagging regions. The industry spurted in 1982, when the government launched a guarantee scheme that covers half of the losses of an officially recognised venture capital firm, a particuliere participatiemaatschappij (PPM).

About the same time, the Amsterdam stock exchange opened the Parallel Market, the second-tier bourse with more lenient listing requirements, for smaller and younger companies. In 1982, the Maatschappij voor Industrieele Projecten (MIP), the biggest venture capital company in the country, was established with Fl 1bn from the government and from institutional investors.

Since then the most remarkable trend has been the retreat of government from the industry and the emergence of the private sector. Five years ago, The Hague controlled 72 per cent of all venture capital, compared with only 44 per cent two years ago (the latest figure available).

Venture capital funds will climb to Fl 3bn this year from Fl 2.2bn in 1986 and Fl 1.8bn in 1985, according to the NVP. Most funds are going to finance the start-up and expansion of companies, rather than the planning stage or second-wave expansion. Electronics, machinery and commercial services industries continue to draw the most risk capital. Venture capitalists have multiplied to at least 65, the number of NVP members, which is the only reliable list of firms.

Risk capital supplied by Holland's huge institutional investors and increasingly eager private investors has exceeded demand for some years. But with more venture capitalists around they face stiffer competition in attracting these funds and creating a good track record of successful investments.

Eighty per cent of companies founded at the end of 1985 survived their start-up phase

Mr Deves told MVP members that consolidation was unavoidable and probably helpful in surviving the heightened competition. "The time has arrived when the success of venture capital can no longer be measured by the amount of funding and investment," he said. "Realised return on assets will become the measuring stick of success."

Entrepeneurs also are gaining in sophistication. An impressive 80 per cent of the 3,000 companies founded at the end of 1985 survived their start-up phase, according to a recent study by the government's Central Bureau for Statistics.

Company founders are better prepared when approaching venture capitalists, aided by the NVP and better informed accountants. Today's entrepeneurs also are hiring more highly skilled and experienced managers, who recognise the need to consider carefully every aspect of a fledgling company, from cash flow to corporate image.

Because risk capital is so well established, it should survive the worst stock market crash in history without much damage, according to Mr Evert Elbertse, secretary of the NVP since it was founded in 1984 and an astute observer of the Dutch scene. He actually sees a silver lining where others see only dark clouds.

"There will be no negative influence," Mr Elbertse predicts. "Companies that are not as far as considering going public will turn to venture capital more quickly now... and may continue with it longer instead of going to the bourse." He admits that some enterprises may find it more difficult to get listed on either the main bourse or the Parallel Market in the wake of Black Monday. But even before October 19 the expectation was that the bourse would lose its dominant position as an exit route for venture capitalists as other avenues expanded.

About 50 per cent of divestments involve a stock market quotation now, according to an NVP study conducted for Swoboda, a Swiss business research bureau. In the future, however, that is expected to fall nearly to 30 per cent as management buyouts and takeovers grow in importance.

Takeovers are relatively rare in the Netherlands, because family ownership is still widespread and most companies are heavily armed with legal defence to ward off hostile bids. But that could start to change, as influential leaders such as the finance minister and stock exchange chairman are urging more mergers and acquisitions to strengthen corporate performance.

Mr Elbertse also eschews talk of an economic recession provoked by the global equity crash and free-fall in the dollar. "We don't believe economic growth will be a lot lower," he observed. "Business investment, profits and share prices may decline somewhat, but that must mean cheaper in and cheaper out."

Laura Raun

West Germany

The infant needs success

A FEW years ago, most West German businessmen had never heard of venture capital. And most of those who had probably regarded it as a fanciful and somewhat dangerous import from across the Atlantic.

Today, however, venture capital has become a far more accepted, if still relatively small, part of Germany's business landscape.

"It is increasingly being seen as a perfectly normal financing instrument," says Mr Peter Kaleschke, a managing director of Munich-based Techno Venture Management (TVM), one of the country's leading companies in the field. "A young businessmen today, as in the US, looks at venture capital just as much as a bank loan, when considering his newest investment plans."

The notion of venture capital is now more fully understood, agrees Mr Thomas Kuerth, a partner in Genes, the Cologne consulting company linked with another leading operator on the scene, International Venture Capital Partners (IVCP). Even so, "you still have to explain it to people".

Compared with a history of several decades in the US, venture capital is still in its infancy in Germany. Funds available total some DM1.2bn ($705m), of which around half has been actually invested. Unlike the US, where about half the money comes from pension funds, the running in Germany is mostly made by banks and industry.

TVM's backers include Siemens, Daimler-Benz and Deutsche Bank. Siemens and the Matuschka financial group, both also headquartered in Munich, are among the partners of TVM, who also include venture capital specialists TA Associates of Boston, US, and David Cooksey in London.

Apart from TVM and IVCP, other participants in German venture capital include WFG Deutsche Gesellschaft fuer Wagniskapital (risk capital), owned by major banks; and Citicorp Venture Capital, run from the US bank's Frankfurt subsidiary. Berlin, with its range of tax incentives, is a flourishing centre for new investment, and is the headquarters of the newly formed German Venture Capital Association.

In an attempt to spread the net more widely, Genes recently helped set up a new fund based in Stuttgart, home of large concerns like Daimler, Bosch, and Porsche, as well as of a host of newer, technology-oriented and, supposedly, cash-hungry, firms. The fund, Euroventures Deutschland, includes domestic investors like Deutsche Philips, Bosch and Dresdner bank. A second parallel fund, Euroventures Germany, is based in Holland; its investors are from the US and Europe, including Germany.

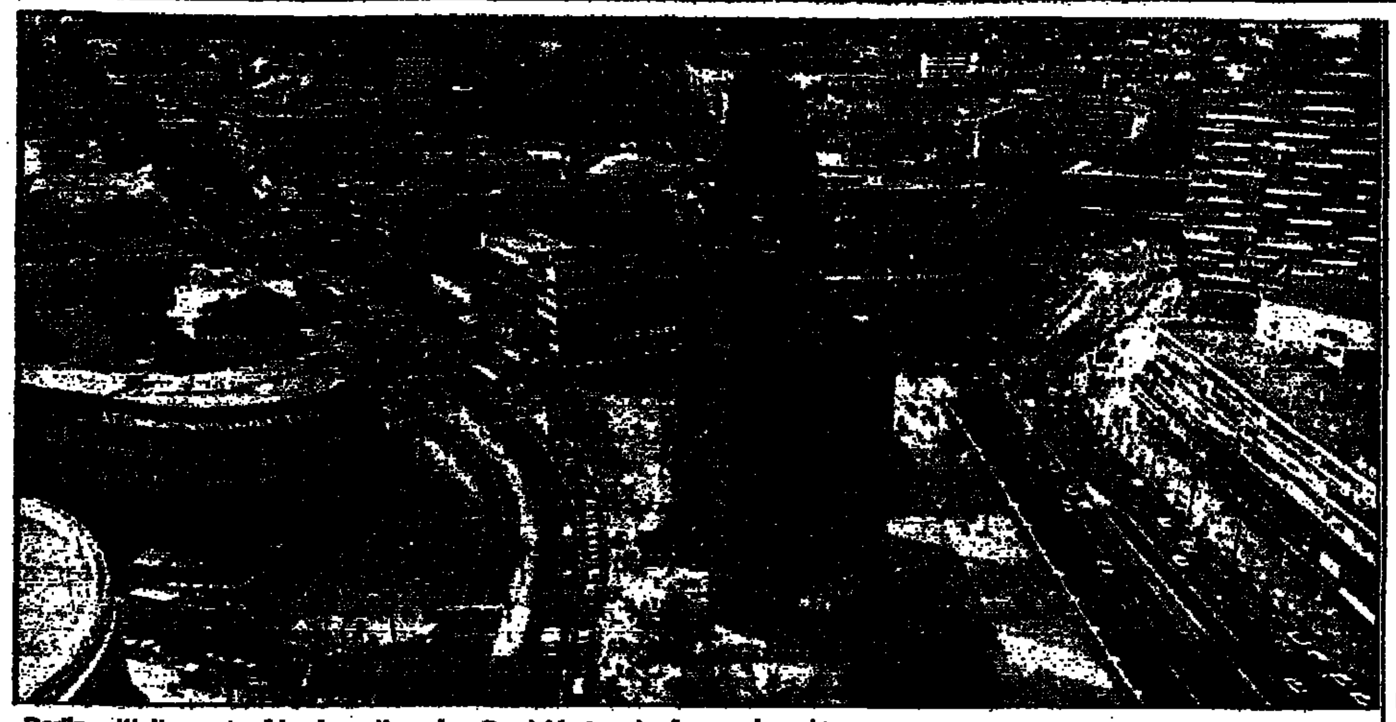
The aim, says Mr Kuerth, of Genes, which will manage both funds, is to accumulate around DM100m of capital for investment in and outside Germany. IVCP, which is investing in the two funds, currently has 19 venture capital stakes of its own and two under negotiation. It has so far had one flop, a start-up firm in the new materials sector. But it has also profitably sold one investment, a computer-aided design company, to the Mannesmann industrial group.

TVM, which has DM166m in two funds, aimed at Germany and other countries, mainly the US, has not so far had any failures among its 47 investments. Still, admits Mr Kaleschke, "it is not natural to expect them all to stay successful". TVM has profitably sold several companies in Germany and the US.

German venture capitalists are sometimes criticised in the US and UK for being too cautious and not willing to risk more failures. The counter argument is that the venture capital scene in Germany needs plenty of successes at this early stage. Nor does an adventurous approach to business fit in too easily with Germany's disciplined business culture.

It remains to be seen whether the movement will suffer at all through the worldwide stock market crisis. Certainly, it will not make it any easier to float off companies to realise investments. Raising new funds could also become harder, especially from US private investors. Overall, though, reckons Mr Rolf Dienst, an executive in the Matuschka group, "it is business as usual at the moment".

Andrew Fisher



Berlin, with its range of tax incentives, is a flourishing centre for new investors

Profile: **Brainware**

Tax benefits from Berlin

BRAINWARE GmbH is one of 30 small high tech firms located in a turn of the century red brick pile in West Berlin called Tip (Technology and Innovation Park), which formerly belonged to the AEG company.

The seedling firm, with 20 employees and a turnover this year *of nearly DM2m (DM1.1m* in 1986) specialises in fifth generation expert systems software, which in West Germany is normally developed by large companies and research institutes. It has been profitable since last year.

Recently a leading West German venture capital company, Techno Venture Management (TVM), in Munich, took a minority share in Brainware. Among TVM's founders are Siemens, the Matuschka group in Munich, TA Associates in Boston and David Kooksey of London. Other investors include Deutsche Bank, Daimler Benz, the VW Foundation and Bayer.

After talking with a number of venture capital companies, and resisting offers from several software houses in Sweden and West Germany, Brainware's two partners, Gregor von Drabich and Joachim Stender decided in favour of TVM. Mr von Drabich says that, in addition to offering business advice and a network of industrial contacts, TVM will allow his company to maintain its independence while providing the capital it needs for expansion. It may also help to place Brainware on the stock exchange.

The two men set up their company three years ago, after Mr von *Drabich, now aged 30, had* left Morgan Guaranty and Mr Stender, 32, had departed from a subsidiary of Siemens. Both have studied at West Berlin's technical university, along with most of the other Brainware employees, and originally came to Berlin from West Germany.

The non-research oriented expert systems Brainware produces are sold to large companies such as Siemens, Nixdorf, Bayer and Sandoz. Although several large German companies have their own departments for expert systems, Mr von Drabich says these may be working to capacity or do not have Brainware's *special know-how.*

"We work with systems which can be fully embedded into existing software and hardware bases," he explains. The market for expert systems in West Germany is doubling annually, but from a miniscule base. The market volume is estimated at DM235m, with some 80 expert systems in operation and another 400 being developed. The US by comparison has about 5,000 completed systems.

Mr von Drabich says he anticipated much faster expansion of the market in Germany when he set up the company. The German companies frequently resist the introduction of new technologies, *he notes.*

At present, the main buyers of expert systems are internationally known West German companies. The leading car firms are slowly beginning to use the systems and machine tool companies are coming to realise the value of attaching an expert system to their equipment.

After a short spell in which Brainware was divided between Wiesbaden and West Berlin, it was decided to locate the firm entirely in Berlin. While nearly all of Brainware's customers are in West Germany, it has benefited from West Berlin's special tax advantages.

The city offers tax-free investment grants for capital equipment of up to 40 per cent in research and development, as well as a corporate tax which is 22.5 per cent lower than in West Germany. Personal income taxes are 30 per cent below those in the rest of the Federal Republic. Selling products and services to other parts of West Germany entitles a West Berlin company to a reduction of up to 10 per cent in VAT, while the West German customer gets an additional 4.2 per cent VAT cut.

At the moment, though, Brainware has little use for the city's investment centres. As a tenet in the Technology and Innovation Park, it shares a switchboard, telex, telefax, secretaries and conference rooms with other firms in the building. The city does, however, pay 40 per cent of the salary of two young engineers working for Brainware.

One of the systems the company is currently *developing* deals with government funding for research projects. This expert system will enable a banker, for example, to let his client know if it is worth applying for a specific program. Mr von Drabich notes that most small and medium sized technology companies in West Germany have no idea about how to tap such funds, which the Government frequently has trouble disbursing.

In addition to developing its own expert systems, Brainware offers consultancy services and distributes software, including many expert systems from the US and UK.

Leslie Colitt

Ian Hamilton Fazey on the growth of funds in the UK regions

A network is emerging

BRITAIN'S REGIONAL venture capital funds have come on considerably in the last year. There is still a long way to go to correct the heavy weighting of money towards the South and South-East, but the means are now *emerging of giving the other* regions a fairer share.

Mr Michael Denny, of the Newcastle-based Northern Investors, represents regional funds on the Council of the British Venture Capital Association, a new step that signals the BVCA's recognition of the problem. He says that two things have been happening more frequently.

More London fund managers have been getting out into the regions to meet the people behind regional funds; and more regional fund managers have been getting into London and being taken seriously. Stronger links - and a national network to get money out of London - are developing.

■ Wales and the West of England - page 10

A year ago the problem of regional imbalance was highlighted by 1985's statistics. Not counting 3i, which has an impressive network of regional offices and is doing scores of deals, these showed the lion's share of venture capital funding going to the South and South East, with other regions struggling.

Among the reasons were London's *position* as the centre of financial Britain, larger numbers of smaller and expanding businesses in the South and South East, and the fact that the best deals require local *knowledge* on the part of the investor.

One inequity of this is that much London funding is provided by regionally-based pension funds, so there is a flight of savings from depressed areas to pay for yet more expansion across the North-South divide.

However, the changes on the ground are significant, not least of which is the growing number, size and professionalism of the regional funds themselves.

Northern Investors, which started in 1984, now has 18 deals completed, and Mr Denny expects the number to reach 40 by the end of next year. This week the fund reported a 34 per cent increase in profits, to £293,000, and 1p on the dividend to 4.5p. The £5m fund has £2.6m invested and has realised its first investment at a profit of £124,000.

This may be small beer for most London funds, but a network of similar regional funds would produce an impressive picture. That network is now emerging.

The enterprise boards spawned by the abolished metropolitan county councils in the West Midlands, West Yorkshire and Merseyside have taken on a new life of their own. Venture funding mechanisms set up by local authorities in Greater Manchester and Lancashire are also there.

The March Investment Fund in Manchester came of age this month by carrying out a "bought deal". It financed the entire £2.5m buy-out of the Hyde-based James North Footwear from Siebe, the engineering group, and will now place part of its investment with other funds, a practice usually carried only by big, experienced institutions.

Normal practice would have been to syndicate the deal in small packets from the outset, a laborious process that can easily come unstuck, as happened this year with a £5m start-up deal in the North West, when a member of the syndicate wrecked the whole deal by pulling out only hours before signature was due.

But these are early days for the regionally-based venture capital industry, and, because of the insular remoteness that still affects much of the London-based national industry, it will probably have to earn its spurs several times over.

Northern Investors - backed by most of the big businesses in the North East - is emerging as a standard bearer. March, backed by gas industry pension money and also heavily involved with technology transfer from Greater Manchester's impressive collection of higher education campuses, ought to become an important force in the North West.

At the leading edge in Yorkshire and *Humberside* is Yorkshire Enterprise, relaunched and renamed this year to escape from the geographical constraints of its birth as the West Yorkshire Enterprise Board. It now ranges over the whole region.

Moreover, Mr Alan Pickering, its managing director, is highly respected in the industry; and its chairman, Mr John Gunnell, also chairs the Yorkshire and Humberside Development Association, thus ensuring an interlinking of important networks in a region of 5m people.

In the South West the Dartington funds at Bristol are the regional cornerstone; while Lancashire Enterprises - set up by the Labour-led county council in 1981 but now no longer a political football - returns substantial profits on its investments.

Meanwhile, Greater Manchester Economic Development Corporation - the conurbation's equivalent of the enterprise boards - has survived county council abolition and, after a difficult period of wrangling over the 10 district councils supporting it, is carrying on under a new chief executive, Mr Alan McGarvey, founding director of the Greater London Enterprise Board.

Mr Michael Denny

Beneath these bigger elements in the regional infrastructure are some smaller funds, operating at start-up level or in the £20,000-£100,000 equity gap that bigger funds find inefficient. Some, notably the North West Investment Fund, are expanding their upper limits and getting into syndicates with the bigger dealers.

Others are seed capital funds, started by bigger organisations such as Yorkshire Enterprise and York Trust - the Leeds finance house - so as to offer a "cradle to flotation" service for local businesses. Others are there to fill local gaps. The small business venture capital fund which the Newcastle office of Scottish stockbrokers Penney Easton is starting shortly comes into this category.

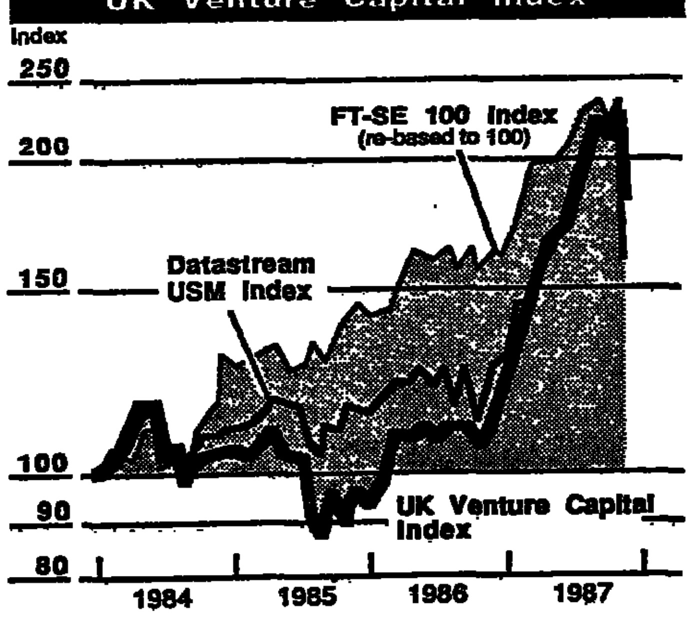
Overlaid on this is the direct involvement of some London funds in the regions, such as those run by the Lazards Capital Development Group.

Each uses a unit trust system, putting half of the fund into regionally based quoted companies to provide liquidity and pay for administration.

In all venture capital, however, local knowledge makes for the best deals, and as regional fund managers become increasingly experienced at spotting good ones, so London fund managers are realising that here is a conduit for their money.

Mr Denny cites Legal and General, Standard Life, and Prudential Assurance as leading what he hopes will be a rush of money to the North.

UK Venture Capital index



Source: Venture Economics

Seed capital

You need patience to hatch a good idea

NEW COMPANIES are, by almost universal agreement, a good thing. Finding backers to finance embryonic new ventures, however, is less straightforward. The venture capital industry can often be persuaded to support the small company once it is on the road, but funding it until it reaches that stage has few attractions.

"The UK venture capital industry spends a lot of time complaining about the quality of the deals that come its way," notes Mr Sy Joffe, executive chairman of JMI Seed Capital. But doing something about it has been left to a small number of seed capital funds, some of which effectively subsidise their seed funding with other activities.

"The UK is crawling with people with good ideas," Mr Joffe says. "Unfortunately projects are often not properly structured, or the management is not up to it. People from the academic world may not know how to present an idea. We take it and package it." It is the time it takes to do the packaging which deters the larger venture capital funds from becoming involved. To earn an acceptable return on a £30m fund means backing a limited number of large ventures which will provide a fairly quick return.

Seed capital, on the other hand, means working very closely with an entrepreneur who may have no more than a good idea. And once the project is off the ground it may take five to seven years for it pay back its investors.

"Seed capital is highly risky," says Mr Anthony Costley-White, co-founder of Oxford Seedcorn Capital, one of the small group of funds which specialise in very early stage financing. "By taking a very active hands-on role we can reduce, though we can't eliminate, that risk."

The seedcorn specialists tend, therefore, to be small, and to operate within a very limited geographical area. Oxford Seedcorn has £250,000 available from a group of private investors. It has backed four small companies with an average of £50,000 each since it was set up in April 1986, and it expects to make at most two more investments from this initial tranche of capital.

Providing seedcorn capital on this scale would not be economic but for the fact that Oxford Seedcorn also has a management consultancy business providing advice to small firms.

Seed Capital, a Bristol-based group, subsidises its financing activities by the publication of Venture Capital Report, a monthly review of a number of early stage companies seeking funds. Mr Lucius Cary, managing director, says he has £250,000 which he is in the process of investing in about 10 companies. A sum of around £25,000 might allow an entrepreneur to build a prototype, but he would have to go to conventional venture capital sources for further funds.

Seed Capital has the backing of one of the larger venture capital funds, Alan Patricof Associates, which would normally be given the right of first refusal if further funds were needed. Patricof plans to provide a further £500,000 to allow Seed Capital to expand its activities.

Financing seedcorn investments indirectly through Seed Capital is the only sensible way for a large venture capital fund to undertake this sort of activity, says Mr Ronald Cohen, chairman of Patricof. "We hive it out, because it is not worth adding a specialist to our own ranks to do the job," he explains.

The US venture capital industry also usually works through specialist seedcorn funds, though it is common in the US for the seedcorn investor to stay with its investment, providing larger amounts of capital as the investee company grows, notes Mr Philip Percival, managing director of JMI.

Seedcorn specialists tend to be small and to operate within a very limited geographical area

Early-stage investments in high-tech companies in the US offer the prospect of faster growth, because of the size of the domestic market. Start-ups in the UK must begin to tackle export markets at a far earlier stage and so tend to grow more slowly.

Mr Percival describes the seedcorn provider's role as being one of project management. "It is very different from other sorts of venture capital funding which require you to back a management. We back an idea and then go out to get the management," he says.

JMI usually works with a partner - a conventional venture capital fund, a large company or an academic institution - to broaden its access to finance, contacts or technology.

Set up in July 1986 with £1.5m to invest, JMI is currently engaged in six projects. They include:

□ Cell Systems, a company which produces micro-nutrients for baby fish and which preserves fish eggs and sperm for fish breeding. Cell Systems was initially backed by Newmarket, another venture capital group, but JMI was brought in when the project required additional funds.

JMI and Newmarket advised Cell Systems to concentrate on just two main areas of work; they helped it rewrite its business plan and provided for a total of £150,000 of equity funds and £75,000 of convertible loans in four stages. They also helped the company recruit a managing director. Cell Systems is now seeking a further £2m of funds to finance further growth.

□ A project to develop DNA probes, which would allow doctors to recognise genetic defects in embryos, which JMI is developing jointly with Celltech, a large biotechnology group. JMI has backed this venture with £30,000, while Celltech has provided industry contacts, market research and an offer of laboratory facilities.

The three-strong team at JMI have no other activities to subsidise their seedcorn invest, though they maintain close links with a US information technology consultancy, the Gartner Group, which helps with advice and access to its database.

They take the normal "carried interest" in the companies they back (a stake of 11 per cent, held personally by the venture capital fund's directors) but meet their running costs from the interest on uninvested funds instead of the 2.5 per cent management fee venture capitalists usually charge on funds provided.

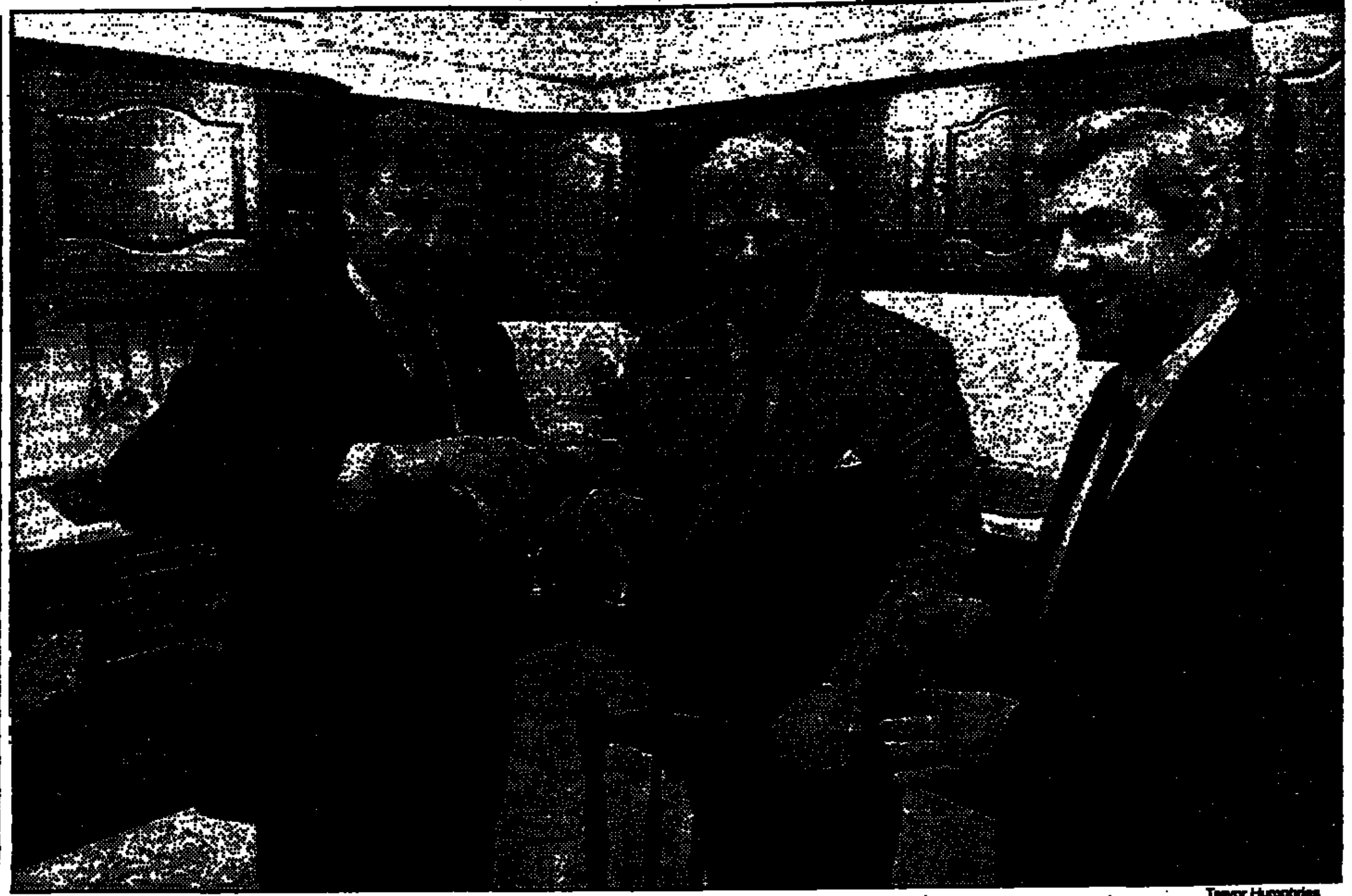
This works in JMI's favour in the early stages, when most of the funds have not been invested, but income will drop off later. It hopes to cover the shortfall in the middle stages of its 10-year life by launching a second fund.

If so much is stacked against the seedcorn investor, why do people do it at all? The answer is that, by investing at an earlier stage than anyone else, the seedcorn fund can come in more cheaply and obtain a higher return if the venture prospers.

"For the extra 12 months of risk we run we get double the return of other venture capitalists," Mr Percival explains. This means the seedcorn investor is aiming for a return of 40 to 50 per cent on his investment.

For many, though, the risks do outweigh the prospective reward. Very early stage companies have a higher failure rate than more mature ventures and seedcorn capital seems set to remain in short supply. "There is a case for setting up another 50 or 100 small funds like mine," says Mr Cary. In the short-term there appears little likelihood of this happening.

Charles Batchelor



Trevor Humphries

Britain's largest buy-out - the £715m purchase of MFI from Asda. Left to right: John O'Connell, managing director, MFI Furniture Group; Derek Hunt, chairman and chief executive; Robert Smith, managing director, Charterhouse Development Capital

The crash deters management buy-outs, says Charles Batchelor

Backers will be cautious

PROSPECTS FOR management buy-outs have been more shaken by the stock market crash of October 19 than have any of the other deals arranged by the venture capital community.

In recent years it has been the buy-out that has guaranteed the venture capitalist the fastest return on his investment. While his other activities, from start-up financing to expansion capital, are likely to take several years to produce a pay-off, there have been buy-outs that have gone to market in under a year.

Nearly one in five of the buy-outs recorded in a survey published in May, by Nottingham University's Centre for Management Buy-Out Research, was floated within 12 months, while more than half obtained a listing within three years.

Though the full impact of the market's sudden decline will only become apparent over the next few months, the City can be expected to look more carefully before funding buy-outs now that the Unlisted Securities Market is no longer an automatic guarantee of a generous rating for every company that comes along.

"I have already detected a hardening of attitudes among some backers of buy-outs who are taking a much more critical look at the relationship of risk to reward," notes Mr Geoff Westmore, who heads buy-outs at accountants Deloitte Haskins & Sells. "The risk may not have changed, but the chances of achieving the reward may have lengthened."

If it is going to take longer to achieve a return on a buy-out investment, some investors may consider looking elsewhere. Nevertheless the buy-out is likely to remain a solid, relatively low-risk investment for the many City institutions that have moved into this area in recent years.

They will certainly attempt to make use of the opportunity provided by the market crash to negotiate what they feel are more realistic valuations for the buy-out companies. The weight of money which had moved into the buy-out field had pushed valuations to levels that looked expensive - even before the market dived.

Not that the stock market crash represents unrelieved gloom for the buy-out. A return to more sensible price earnings ratios on the USM and the stock market proper may mean that fewer potential buy-outs are lost to rival bids from corporate purchasers.

A feature of the past year has been the number of deals that have not gone through because a quoted company has stepped in with a more generous offer, which it has been able to finance by issuing highly-rated shares. Before the crash 3i (Investors in Industry) estimated that, for every buy-out it completed, it lost another deal to a trade buyer. This ratio is now expected to move in the favour of the buy-out teams.

UK: period from buy-out to flotation

	USM		Full Listing		OTC		Total	
	No	%	No	%	No	%	No	%
Less than 1 year	6	9.2	7	22.6	5	83.3	18	17.6
1 year-1.99 years	9	13.8	9	29.0	1	16.7	19	18.6
2 years-2.99 years	7	10.8	8	25.8	—	—	15	14.7
3 years-3.99 years	12	18.5	4	12.9	—	—	16	15.7
4 years-4.99 years	7	10.8	—	—	—	—	7	6.9
5 years-5.99 years	7	10.8	—	—	—	—	7	6.9
6 years-10 years	10	15.4	1	3.2	—	—	11	10.8
Over 10 years	5	7.7	2	6.5	—	—	7	6.9
n.a.	2	3.0	—	—	—	—	2	1.9
Total	65	100.0	31	100.0	6	100.0	102	100.0
Average (years)	4.43		2.74		0.32		3.66	
Range (years)	0-18.0		0-20.0		0-1.2		0-20.0	

Sources: Flotations of Management Buy-outs, published by the Centre for Management Buy-out Research and by Spicer and Pegler.

"This will be good for us," comments Mr Tim Syder, a director of County NatWest Ventures. "The thing we hate doing is spending a lot of time on a company and then losing the deal at the last minute."

One benefit of the stock market upset is that, if interest rates continue to ease as part of the Government's efforts to maintain liquidity in the market, the interest burden on the bought-out companies will be reduced.

Although British buy-outs have usually been carried out on a fairly conservative basis - typically with a debt to equity ratio of 3 or 4:1 - reduced interest charges could be crucial, particularly if slower economic growth reduces company cash flows.

Venture capitalists in the UK are hopeful that an economic slow-down will not endanger recent buy-outs since they did not depend on selling off large parts of the business to survive. This is not the case in the US, where gearing ratios have typically been 8 or 9:1 and many deals do depend on a rapid sale of assets to reduce the debt burden.

Despite these hopes, the market crash came at an awkward time for Britain's largest buy-out - the £715m purchase of the MFI furnishing group from Asda, the food retailer. Charterhouse Development Capital was putting the finishing touches to the financing of the deal when the market slumped.

This could have forced Charterhouse to take on much more of the equity funding itself if the deal had not already reached a fairly advanced stage. Agreements on the bulk of the funding were already in place, however, and at worst the market crash would have led to Charterhouse taking up an extra £3m-£4m of the equity on top of the £20m to which it was already committed, according to Mr Robert Smith, Charterhouse's managing director.

The crash also forced 3i and the management team of Moores Furniture Group, a Yorkshire-based manufacturer of fitted kitchens, to adjust the terms of an £80m buy-out announced in mid-October. The original mix of equity, mezzanine finance and loans in the deal has been modified to take account of the crash, though precisely how 3i declined to say.

3i does not expect to have difficulties selling the deal, which it initially took fully on its own books, on to investing institutions. The market for unquoted companies is currently more liquid than that for smaller quoted companies, Mr Ewen MacPherson, a 3i director said.

Before the crash, the buy-out had been setting new records as a popular tool for corporate restructuring. A total of 261 deals, worth £1.2bn, were recorded in 1986, and in the first nine months of the current year a further 125, worth £1.36m, were completed.

The arrangement of the MFI buy-out showed that the City - with the help of US banks that have set up in London - could arrange the financing of substantially larger deals than had previously been attempted. The MFI buy-out was four times bigger than the previous record-holder, the £173m purchase of Mardon packaging from BAT Industries.

This reflected a fundamental change in the nature of the UK buy-out business in recent years. Originally seen as means of disposing of poorly-performing subsidiaries, which were often sold at a discount to net asset value, the buy-out became a way of selling off profitable but ill-fitting businesses. Valuations were set at a multiple of past and projected cash flows, rather than of asset backing for loans.

Mezzanine financing was introduced from the US to bridge the gap between the price of the deal and the value of the underlying business. It takes the form of high-yielding loan capital, ranking after secured loans but ahead of equity should the company fail.

The "bought deal" also emerged as a way of allowing management teams to put a buy-out together quickly and confidentially before rival corporate bidders pounced. This relied on the main bank's taking all of the financing on to its own books before syndicating the deal on at a later date.

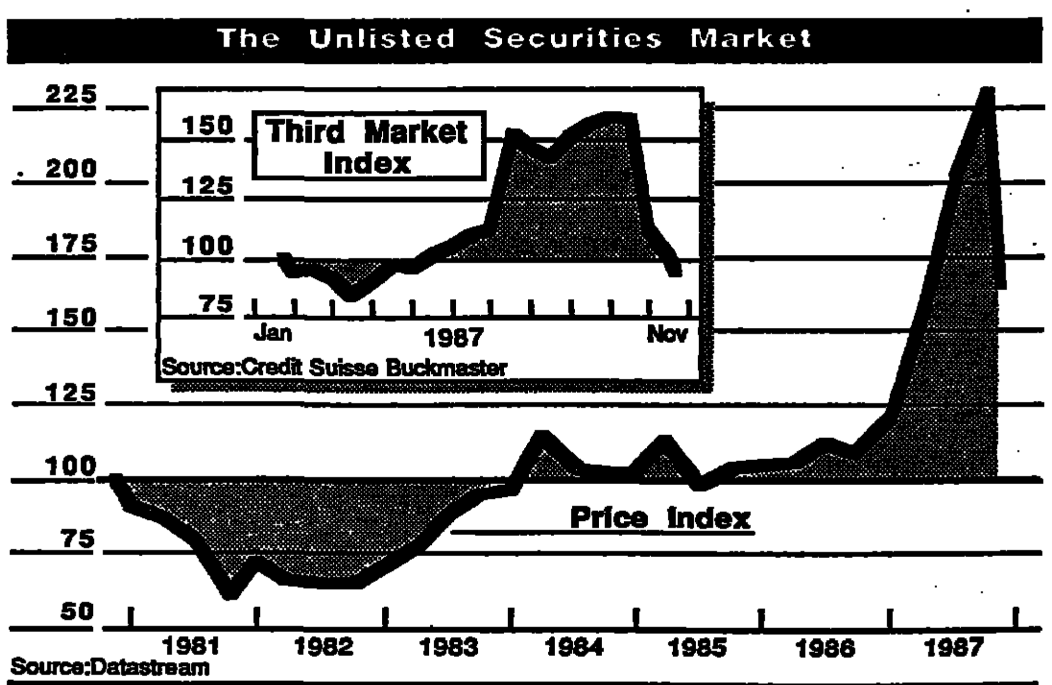
How the management buy-out survives the crash of 1987 - and whether these techniques will be needed in the present, more subdued, climate - will become apparent in the months ahead.

FT Management Buy-Outs survey

A TABLE (Analysis of major UK buy-outs by deal participants) in the *Management Buy-Outs* survey, published with the FT of October 14, wrongly attributed two buy-outs arranged by Schroder Ventures to Security Pacific Hoare Govett Equity Ventures. Schroders was deal leader in the buy-outs of Crown House Engineering and Haleworth (London & Midland Industries).

Philip Coggan returns a verdict of 'not proven so far' on the Third Market

The storm is likely to discourage sponsors



IF THE Third Market was intended to be a forum for young businesses to raise funds, it has a long way to go before it can be rated as a success.

Against early optimistic estimates of up to 200 companies joining the market within the first year, fewer than 30 have so far ventured on to the Stock Exchange's newest tier.

And even those companies that have joined did not all raise money on the market - many joined via an introduction either from the over-the-counter market or from the Stock Exchange's Rule 535 (3), previously the haven for exploration companies.

The Unlisted Securities Market also had a slow start when it was opened in 1980, before gradually picking up momentum as more investors and City firms accepted the new forum. But the verdict on the Third Market so far must be "not proven", especially as October's stock market crash may have dented investor enthusiasm for smaller company shares.

However, there have been one or two greenfield projects which have used the market as a vehicle for raising finance - for example, Medirace launched the market's first fully-fledged offer-for-sale in July.

The company certainly qualified as high-risk, start-up capital. It had no commercial record and its principal asset consisted of a right to exploit research into the use of fatty acids in the treatment of AIDS and cancer patients.

Some research appeared to show that AIDS and cancer patients had cell membranes with abnormal fatty acid composition; although the research was at a very early stage, the magic word AIDS was enough to attract investors. The issue was oversubscribed, although the shares subsequently suffered a battering in the wake of the market crash.

ChemEx International opted for the lower profile route of a placing for its Third Market flotation. The company was formed to take advantage of the growth in the environmental analysis industry, in the wake of industrial disasters like Chernobyl and Bhopal. ChemEx will analyse waste or related samples using chemical techniques, like mass spectrometry.

Choosing a public route enabled ChemEx to raise a substantial sum of money - just short of £2m. Of course, such a sum could have been raised via a private placing, but the extra liquidity implict in a market quote may have helped persuade some institutions to subscribe.

But the fact that so few start-up companies have joined the market so far hardly indicates that there was a rush of companies just itching to find a forum for their shares. Part of the reason was the plethora of alternative sources of venture capital - this has been, after all, the decade when the term gained common currency.

There is no barrier, for example, to start-up companies raising money on the Unlisted Securities Market - indeed many have done so in the market's seven-year history. Ironically, one factor behind the undersupply of Third Market start-up companies may be the poor performance of those USM greenfield ventures. From the very first USM start-up, Hesketh Motorcycles, such companies have had almost uniformly disappointing records - high risk, without the compensation of high reward.

However, it would be a mistake to believe that the only service a market can make to the venture capital industry is to be the vehicle for new company launches. For investors, the opportunity of a stock market flotation at some point in the future gives them a realistic prospect of cashing in their initial stake.

The Third Market, with its lower entry barriers, is an attractive option for growing start-ups which want to create a more liquid market in their shares. There is no minimum size criteria; nor is there any requirement for a specific percentage of the equity to be offered to the public, although the sponsoring firm is expected to ensure that there is an adequately liquid market.

The sponsor plays a vital role in a Third Market launch, so vital indeed that one reason for the market's slow start may well be that securities houses are chary of accepting the responsibilities involved. As well as ensuring that the company is suitable to join the market and that it produces the correct documentation, the sponsor is also charged with arranging for at least two market makers to deal in the stock.

It is the nature of small companies that they cannot afford to pay substantial fees to their financial advisers. The latter have to hope that they can make money as their clients grow - either via market making in the shares or by participating in larger corporate finance deals.

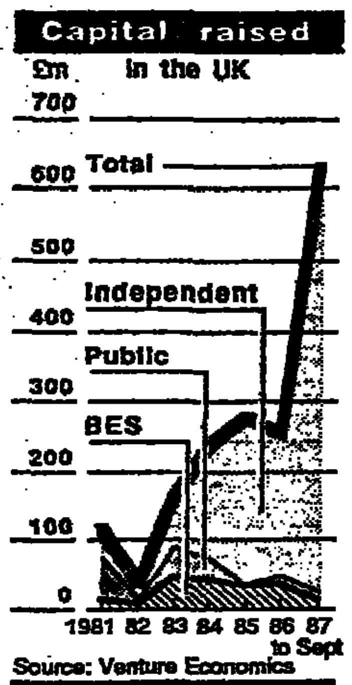
It is too early to tell whether the crash will affect sponsors' perception of the potential profits that can be derived from backing a start-up's Third Market launch. But the battering suffered by some Third Market shares recently can hardly encourage sponsors, or companies, to opt for the public rather than the private fund-raising route.

The BES

Takeovers need not negate tax relief

THE BUSINESS Expansion Scheme is now an established part of the venture capital industry. In the last financial year, BES issues raised £148m from investors - only £1m more than the previous year, but still a record for the four financial years the scheme has been in operation.

And there are encouraging signs that investors will realise promising returns when the five-year qualifying period for income tax and capital gains tax relief has passed. Already, some BES companies have been taken over, giving investors a strong indication of the returns on offer.



Source: Venture Economics

Takeovers of BES companies have generally followed two patterns. The most common has been for the acquiring company to buy up just the shares of the non-BES shareholders, but agree to buy up the BES holdings once the five-year qualifying period has elapsed. That way the BES company reaps the commerical benefits of being part of a larger organisation but the BES investors retain their tax relief.

Kennedy Brookes, the restaurateur, used such a structure when it announced a bid for Black & Edgington, a BES company, in August. It made one offer - seven of its shares for every two in B&E, with a cash alternative of £12.60 a share - but promised to make a second offer, of at least £13.50 a share, when the BES qualifying period elapsed in April 1989. That looks a pretty good deal for BES investors, who paid £4.55 gross - the equivalent of £1.80 after 60 per cent tax relief - for each share in 1984.

The alternative pattern is for the acquiring group to buy up the share capital of a BES company lock, stock and barrel. A recent example was when Publishing Holdings acquired Investors Newsletters.

Investors Newsletters had been a BES company for less than three years, and so, under the scheme's rules, could not become a subsidiary of another company. In the circumstances, BES investors would have lost their tax relief, whether or not they sold their shares.

However, the terms of the offer - 38.5p per share, compared with the 15p at which they were issued two years earlier - meant that investors were more than compensated for the loss of their relief.

News that BES investors can make substantial returns is especially welcome, since the early progress of the scheme was dogged by reports of losses and bankruptcies. That was inevitable, since small companies are inherently vulnerable; a few schemes were bound to go under. Conversely, young companies take time to become successes.

One effect of the early bad news was to depress enthusiasm for BES funds which experienced many of the initial failures. Such funds are, in theory, safer for private individuals, since, by investing in a range of companies, they create a balanced portfolio. However, over the years, the proportion of total BES investment made via the funds has steadily declined to 22 per cent in the last financial year.

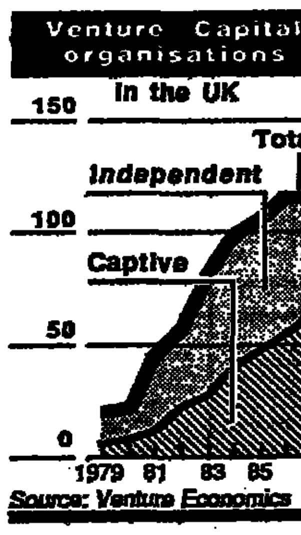
Attention has shifted instead to the prospectus issues whereby companies, usually with the help of a sponsor, appeal directly to the pockets of private individuals. One explanation for the popularity of such issues could just be that investors like to back their hunches - rather than entrust their money to the expertise of a fund manager.

A prospectus issue might frighten some company managers, in that it requires a lot of financial and personal detail to be revealed. Details of a director's criminal convictions, however minor, or his involvement in a corporate bankruptcy, can look rather embarrassing in cold print.

However, it is possible via a BES prospectus issue to raise sums of £5m or more - a total which a young company would find difficult to attain by any other route.

Which companies can qualify for the scheme? They must carry out their trade wholly or mainly in the UK, but not in areas such as: banking, and dealing in shares and land; leasing or hiring; dealing amounting to financial investment; or the provision of legal and accountancy services.

The 1986 Budget decreed, in addition, that no company could qualify if more than 50 per cent of its net assets were in land and buildings. However, that has not stopped companies advertising the "asset backing" attached to their issues. Secured contractors were especially popular last year - such companies carry out building work and offer clients deferred payment terms, but secure their fees on the land and buildings involved. That gives the companies a measure of asset backing, but the assets do not appear on the balance sheet, and thus the companies continue to qualify for the scheme.



Source: Venture Economics


The 1986 Budget brought changes in the rules Trevor Humphries

Although a wide variety of schemes have attempted to raise cash - from anti-AIDS sprays to royal exhibitions, from garden centres to indoor cricket - not all have succeeded. In some cases, the companies' success depends on how much pull the sponsors have with their private clients.

However, there is a trade-off, since sponsors services' rarely come cheap. The costs of an issue are usually between 5 and 10 per cent of the amount raised; in addition, there will be a management charge over the five-year qualifying period; and frequently some sort of option scheme which gives the sponsor 5-10 per cent of the shares at some future date.

It is hard for the investor to assess how onerous such costs are. If the company does well enough for the sponsors to make a lot of money out of their options, then the investors will be coining it too, and thus will be unlikely to complain. On the other hand, if the company fails, then the sponsors' options will be as worthless as the investors' shares.

Similarly, a BES company must find it hard to tell whether the sponsor who charges the most will provide the best service. A lesser known name might appear cheaper, but last year there was a rash of issues that had to be withdrawn because of faulty prospectuses.

Despite the occasional scandal, the BES appears to be flourishing again this year. A change in the Budget rules meant that it is no longer necessary for issues to be bunched towards the end of the financial year - and a wide variety of companies have managed to raise funds already.

Philip Coggan

Profile: **James Martin Associates**

From here to there the rarefied way

JIM MARTIN is a computer guru. British-born, he now lives in Bermuda and returns to the Old World to deliver lectures to massive, attentive audiences who pay him a fee of $25,000 a day. Royalties from his many books on computer systems now exceed those earned by Ian Fleming for the James Bond novels.

James Martin Associates - known as JMA - has gripped its customers in the same way that its eponymous founder, chairman and principle shareholder grips the lecture hall. Established in 1981, JMA already serves some of the world's biggest and most blue-chip companies - including IBM, ICI, BP and Citibank - and turnover, at $15m in the last year, is growing at the rate of 30 to 40 per cent a year.

A "David and Goliath" partnership with Texas Instruments, one of the world's largest companies in the high technology field with annual sales of $5bn, provided the impetus for the development of JMA's revolutionary products. A tranche of capital from three UK institutions provided the finance for the development of a marketing network in Europe. Within a few years, the company intends to float on the stock market.

"JMA just oozes brains," said one of its backers, acknowledging a growing sense of awe as he pondered the complexity of the young company's operations. It operates on an elevated plane and speaks a rarefied language littered with jargon. And although JMA has successfully translated its founders' ideas into the business world, the ideas are extremely complex and likely to be accessible only to those familiar with the intricate architectonics of computer systems. But what does JMA actually do?

With offices in eight countries, JMA is a "mainframe database consultancy". It sells advice, and software packages with the intimidating name of Information Engineering Facility or IEF. At $300,000 a time, IEF is at the top end of the market and of interest only to the large corporation.

IEF helps to bridge the gap between a big company's computer facilities as they are now and as they ought to be in the future. Usually, the task is a


Jim Martin: complex ideas, royalties beyond Bond

laborious one, with squads of programmers and analysts producing interminable charts following the tedious progress of endless invoices, on which plans for the future are based.

With acute shortages of skilled staff, the updating process is invariably slow, and new systems end up being obsolete before they are even complete - Information Technology's equivalent to painting the Forth bridge.

David Fairbairn, formerly director of the National Computer Centre and now managing director of JMA, thought that the technology would not be developed before 1995 - until he stumbled across the work of the small company. "I was astounded by what they could do," he recalls. "Here was the company which had made the giant leap into the future, taken the lateral step."

JMA had been acting as consultants on internal systems needs at Texas's headquarters in Dallas. What JMA was offering was attractive and in 1983 a joint venture was formed, with Texas providing the human and financial resources and JMA the methodology. The result was IEF.

This automates all stages in the design and development of new computer systems. From concept to computer is one relatively uncomplicated step - uncomplicated for the client, that is.

Under the guidance of a JMA consultant, all the client has to do is enter his requirements on a screen. Colourful diagrams replace acres of paper, and an outline of the new system resolves itself on to the screen. Then, as if by magic, a button veritable is pushed and the required programming takes place automatically. The programmer finds himself dispensed with.

The system is designed so that it can be updated in future with the minimum of fuss. It incorporates an "encyclopedia" of information detailing an organisation's every computer need - a central repository of rules and information - which JMA strives to keep aligned with business objectives.

Although JMA has established a consultancy network in the US, Texas retains the marketing rights for the product there, and JMA everywhere else. There is a two-way royalty flow.

Undoubtedly "quality" management and the link with Texas Instruments - not to mention the massive potential of the product itself - made it fairly easy for JMA to find backers. Certainly, JMA appears to have had no trouble in securing the backing of the Charterhouse Japhet Fund, Warburgs, and Syntech, a venture fund for the computer industry.

The total amount secured was £1.7m, but David Fairbairn has drawn down only half of this. He aims to limit the institutions' eventual stake in his company to around 15 per cent by the time it comes to the market. When it does, an impressive track-record is likely to ensure a successful flotation - assuming the investor makes a valiant attempt to understand what the company actually does.

David Waller

Major sources of venture capital in the UK and main continental funds

The table lists the major sources of venture capital in Europe. It was compiled by accountants Peat Marwick McLintock.
Further information can be obtained from John Hustler of Peat Marwick McLintock at 1, Puddle Dock, Blackfriars, London, EC4V 3PD. Telephone: 01-236 8000.
A more comprehensive list of non UK sources, together with a survey of European venture capital, is available in the EVCA Yearbook which can be obtained from Robert Ceurvorst, the Secretary General, EVCA Secretariat, Clos du Parnasse 11f, B-1040 Brussels, or John Hustler.

Fund Managers	Range of individual investments considered: Minimum '000s	Maximum '000s	Start up	Development	Replacement	Man. buy-out	Rescues	Terms of funding	Telephone
UK (All figures in £'000s)									
3i (Investors in Industry PLC)	0.00	35000	Y	Y	Y	Y	Y	Mainly Long Term	01-928 7822
Aberdeen Fund Managers Limited	50.00	400	Y	Y	Y	Y	P	Medium/Long	0224 631999
Abingworth PLC	100.00	1500	Y	Y	Y	Y	Y	Flexible	01-839 6745
Advent Limited	500.00	2000	Y	Y	P	Y	P	Flexible	01-630 9811
AIB Venture Capital	250.00	1500	P	Y	Y	Y	N	Flexible	01-920 9155
Alan Patricof Associates Limited	100.00	3000	Y	Y	Y	Y	Y	5 Years	01-493 3633
Alta Berkeley Associates	100.00	2500	Y	Y	Y	P	N	Open	01-629 1550
Avon Enterprise Fund PLC	40.00	250	Y	Y	N	Y	N	5-10 Years	0272 213206
B & C Ventures Limited	500.00	1500	P	Y	Y	Y	P	Medium	01-283 4343
Baillie Gifford & Co.	50.00	1000	Y	Y	N	Y	N	3-5 Years	031 225 2581
Bank of Boston	250.00	1000	N	Y	Y	Y	N	Medium	01-248 0701
Bankers Trust	250.00	1500	N	Y	Y	Y	N	Up to 10 Years	01-726 4141
Barclays Development Capital Limited	200.00	Open	N	Y	Y	Y	P	Flexible	01-407 2389
Baring Brothers Hambrecht & Quist	50.00	15.00	Y	Y	P	P	N	Up to 10 years	01-408 0555
Baring Capital Investors Limited	500.00	Open	N	Y	Y	Y	N	2-7 years	01-408 1282
Barnes Thomson Management Limited	100.00	400	P	Y	Y	Y	N	5-7 years	01-487 3870
Baronsmead Associates	200.00	1500	Y	Y	Y	Y	N	Medium	01-638 1700
Biotechnology Investments	200.00	1500	Y	Y	N	Y	N	Long	01-280 5000
Birmingham Technology	50.00	500	Y	Y	P	Y	P	Up to 5 yrs	021 359 0981
British Linen Bank Limited	70.00	500	Y	Y	Y	Y	Y	3-7 years	031 243 8483
British Technology Group	50.00	Open	Y	Y	N	P	N	5-7 years	01-403 6666
Brown Shipley Developments	50.00	500	N	Y	P	Y	P	Flexible	01-606 9833
Cambridge Capital Developments	25.00	Open	P	Y	Y	Y	P	Flexible	0223 312856
Candover Investments PLC	1000.00	10000	N	Y	P	Y	P	Medium/Long	01-583 5090
Capital Ventures Limited	30.00	20000	Y	Y	P	Y	N	Medium	0242 584380
Capital West	500.00	Open	N	Y	P	Y	N	Long	0272 213206
Castle Finance Limited	100.00	1000	P	Y	P	Y	N	Flexible	0803 622200
Castleforth Fund Managers Limited	100.00	250	Y	Y	Y	Y	Y	Medium	01-240 8887
Causeway Capital Limited	350.00	1000	Y	Y	Y	Y	Y	Medium/Long	01-831 3078
Centreway Development Capital Limited	100.00	1000	Y	Y	N	Y	P	5 years	021 643 3941
Charterhouse Development Capital	100.00	5000	Y	Y	Y	Y	N	As appropriate	01-248 4000
Charterhouse Venture Fund	250.00	1000	Y	Y	N	Y	N	5-10 years	01-409 3232
CIN Industrial Investments Limited	250.00	5000	Y	Y	Y	Y	P	Medium/Long	01-245 6911
Citicorp Venture Capital Limited	250.00	Open	Y	Y	Y	Y	P	Flexible	01-438 1286
Close Investment Management Limited	150.00	3000	N	Y	Y	Y	Y	3-7 years	01-283 2241
Clydesdale Bank Equity Limited	50.00	Open	P	Y	Y	Y	P	Open	041 248 7070
County Development Capital Limited	200.00	1500	P	Y	Y	Y	Y	As appropriate	01-638 6000
Cygnus Venture Partners	0.00	2000	Y	Y	Y	Y	Y	Up to 10 years	0895 72601
CoSIRA (Council for Small Ind. in Rural Areas)	0.25	75	Y	Y	N	Y	N	As appropriate	0722 336255
Development Capital Corporation Limited	100.00	2500	P	Y	Y	Y	P	Open	01-491 0767
Development Capital Group Limited	100.00	5000	Y	Y	Y	Y	Y	5-8 years	01-935 2731
ECI Ventures	300.00	3000	Y	Y	Y	Y	Y	Flexible	01-606 1000
Electra Management Services Limited	500.00	5000	P	Y	Y	Y	Y	Flexible	01-831 6464
English & Caledonian Investment PLC	200.00	1000	Y	Y	Y	Y	Y	3-5 years	01-623 1212
Ensign Trust PLC	1000.00	3000	N	Y	P	Y	N	3-4 years	01-256 9555
F & C Ventures Limited	250.00	2500	Y	Y	Y	Y	Y	5 years	01-623 4680
Fleming (Robert) Investment Management	200.00	5000	Y	Y	P	Y	Y	Medium/Long	01-638 5858
Fleming Ventures Limited	250.00	1000	Y	Y	N	Y	N	3-5 years	01-480 6211
Fountain Development Capital Fund	100.00	750	Y	Y	Y	Y	Y	5 years	01-628 8011
Gartmore Investment Management Limited	150.00	10000	Y	Y	Y	Y	P	Flexible	01-623 1212
Granville & Co. Limited	50.00	750	Y	Y	Y	Y	Y	Flexible	01-621 1212
Gresham Trust PLC	50.00	750	Y	Y	Y	Y	P	Long	01-606 6474
Grosvenor Venture Managers Limited	200.00	800	N	Y	Y	Y	N	5-7 years	0753 32623
Guildhouse Limited	0.00	1000	Y	Y	Y	Y	Y	Flexible	01-606 6321
Guinness Mahon Venture Capital Limited	100.00	Open	N	Y	Y	Y	P	Long	01-623 9333
Highlands and Islands Development Board	0.00	400	Y	Y	N	Y	Y	5-10 years	0463 234171
Hoare Octagon	75.00	300	Y	Y	N	Y	P	5-10 years	0223 863033
Hodgson Martin Ventures Limited	50.00	150	P	Y	P	Y	P	5 years	031 557 3560
Industrial Development Board for Northern Ireland	0.00	Open	Y	P	N	P	Y	Medium	0232 233233
James Finlay Corporation Limited	50.00	500	P	Y	P	Y	N	Flexible	041 204 1321
JMI Advisory Services	0.00	150	Y	N	N	N	N	Open	01-930 7107
Johnston Development Capital Limited	100.0	350	P	Y	Y	Y	N	Open	07372 42485
Kleinwort Benson Development Capital Limited	250.00	Open	P	Y	Y	Y	P	4-7 years	01-623 8000
Lancashire Enterprises	0.00	1000	Y	Y	Y	Y	Y	Medium/Long	0772 735821
Larpent Newton & Co.	50.00	7000	Y	Y	Y	Y	Y	As appropriate	01-251 9111
Legal & General Venture Capital Unit	250.00	Open	P	Y	Y	Y	Y	3-7 years	01-248 9578
Leopold Joseph & Sons Limited	0.00	Open	P	Y	Y	Y	P	Open	01-588 2323
Lloyds Development Capital Limited	200.00	Open	N	Y	Y	Y	N	Flexible	01-248 4275
Mercia Venture Capital Limited	50.00	Open	Y	Y	N	Y	Y	Medium	021 233 3404
Mercury Warburg Investment Management Limited	200.00	2000	P	Y	Y	Y	P	5-10 years	01-280 2800
Merseyside Enterprise Board	50.00	250	P	Y	N	Y	P	5-7 years	051 236 0221
Metrogroup Limited	100.00	500	N	Y	Y	Y	Y	5 years	01-404 5620
Midland Montagu Ventures Limited	100.00	Open	P	Y	Y	Y	P	Long term	01-588 8846
Mim Development Capital	200.00	3000	P	Y	P	Y	N	3-5 years	01-626 3434
Minster Trust Limited	100.00	250	P	Y	N	Y	Y	5 years	01-623 1050
Morris, Stewart-Brown & Co	200.00	Open	Y	Y	Y	Y	Y	Flexible	01-248 2694
MTI Managers Limited	100.00	1000	Y	Y	N	Y	Y	To 1993	0923 50244
Murray Johnstone Limited	250.00	2500	P	Y	P	Y	P	Medium	041 221 9252
National Westminster Growth Options Ltd	25.00	200	Y	Y	P	Y	N	Up to 10 years	01-239 8000
Newmarket Venture Capital Limited	200.00	600	Y	Y	N	N	Y	3-10 years	01-638 2521
Noble Grossart Investments	100.00	1000	Y	Y	Y	Y	Y	Flexible	031 226 7011
Northern Investors Co	25.00	Open	Y	Y	Y	Y	Y	Medium/Long	091 232 7068
Northern Ireland Venture Capital	30.00	500	Y	Y	Y	Y	Y	Medium	0232 755777
Oakland Capital Management PLC	150.00	750	P	Y	P	Y	P	5-7 years	0488 84855
Phillips & Drew Development Capital	250.00	3000	P	Y	Y	Y	P	5-7 years	01-628 8366
Prelude Technology Investments Limited	20.00	500	Y	Y	N	Y	P	Open	0223 862232
Prudential Venture Managers Limited	250.00	5000	Y	Y	Y	Y	P	Flexible	01-586 8799
Quayle Munro Limited	60.00	1000	N	Y	Y	Y	P	5 years	031 226 4421
Quester Capital Management Limited	100.00	750	Y	Y	Y	Y	Y	Medium/Long	01-222 5472
Rothschild Ventures Limited	100.00	1000	Y	Y	Y	Y	Y	Medium	01-280 5000
Sapling (North West) Limited	25.00	200	Y	Y	Y	Y	N	Medium	02572 60411
Schroder Ventures	250.00	10000	Y	Y	Y	Y	P	Flexible	01-382 6000
Scimitar Development Capital Ltd	300.00	3000	P	Y	Y	Y	P	Medium	01-623 8711
Scottish Development Agency	5.00	1000	Y	Y	N	Y	Y	Long	041 248 2700
Security Pacific/Hoare Govett-Equity Ventures	500.00	10000	N	Y	Y	Y	N	3-5 years	01-588 0505
Sharp Technology Fund PLC	100.00	750	N	Y	Y	Y	Y	Long	021 200 2244
Singer & Friedlander Limited	150.00	300	N	Y	N	Y	N	As appropriate	0532 438073
St. Helens Ins Syndicates	20.00	60	Y	Y	P	Y	Y	5 years	0744 696775
Stewart, Ivory & Co. Limited	250.00	2000	P	Y	Y	Y	P	Flexible	031 226 3271
Stunit	250.00	1250	N	Y	Y	Y	Y	Long	021 200 2244
Sun Life Investment Management Services Limited	200.00	750	P	Y	Y	Y	P	Medium/Long	01-606 7788
The St. James's Venture Capital Fund Limited	150.00	750	Y	Y	P	Y	P	Medium	01-839 2255
Thompson Clive & Partners	0.00	1000	Y	Y	Y	Y	Y	Open	01-491 4809
Top Technology Limited	50.00	500	Y	Y	P	Y	P	3-7 years	01-242 9900
Transatlantic Capital	50.00	250	Y	Y	Y	Y	N	5 years	01-499 0021
Trust of Property Shares Limited	25.00	350	Y	Y	P	P	N	Open	01-486 4684
UBK Information Technology Partnership	50.00	500	Y	Y	P	P	Y	Up to 6 years	01-626 3422
Ulster Development Capital Limited	50.00	300	N	Y	Y	Y	Y	Flexible	0232 245765
Ulster Venture Capital	30.00	250	Y	Y	N	N	N	As appropriate	0232 229480
Venture Founders Limited	100.00	500	Y	P	N	P	P	Flexible	01-434 9781
Venture Link (Holdings)	100.00	Open	Y	Y	P	P	N	3-7 years	01-236 6591
Welsh Development Agency	5.00	1000	Y	Y	P	Y	P	Medium	0222 32955
West Midlands Enterprise Board Limited	100.00	750	P	Y	P	Y	P	Long	021 236 8855
West Yorkshire Enterprise Board Limited	25.00	1000	Y	Y	Y	Y	Y	Medium	0532 420505
BELGIUM (All figures in BF'000s)									
Advent Management N.V.	10000	(*)	(*)	(*)	(*)	(*)	(*)	(*)	2720 7007
Banevest Management N.V.	10000	30000	Y	Y	Y	Y	Y	2-7 years	2720 5023
Euroventures Benelux Team B.V.	10000	25000	Y	Y	Y	Y	Y	(*)	2720 9142
Investco N.V.	5000	Open	Y	Y	Y	Y	Y	2-7 years	2513 4520
Investment Co. for Flanders (G.I.M.V.)	3000	100000	Y	Y	N	Y	Y	7-10 years	3239 8353
ISEP N.V.	4500	50000	Y	Y	Y	Y	(*)	(*)	2734 9909
Promovest N.V.	20000	250000	Y	Y	Y	Y	Y	2-7 years	2517 2872
Societe Regionale D'Investissement De Wallonie (S.R.I.W.)	10000	Open	Y	Y	Y	Y	Y	(*)	8130 6411
DENMARK (All figures in DKR'000s)									
Derventure Invest A/S	500	(*)	(*)	(*)	(*)	(*)	(*)	(*)	2581 566
Investor Venture A/S	4000	25000	N	Y	Y	Y	N	3-8 years	1328 311
Privatbankens Initiativfond	750	10000	Y	Y	Y	Y	(*)	(*)	1111 111
FRANCE (All figures in FF'000s)									
Alan Patricof Associes	2000	25000	Y	Y	N	Y	Y	3-7 years	1 455 30378
Banexi	(*)	(*)	Y	Y	Y	Y	Y	(*)	1 424 45212
Charterhouse Expansion	1000	10000	Y	Y	(*)	Y	(*)	(*)	1 472 35233
Citicorp Venture Capital S.A.	5000	Open	Y	Y	Y	Y	N	2-10 years	1 430 57010
La Compagnie Financiere Du Scribe	1000	10000	Y	Y	N	Y	N	2-10 years	1 474 29028
La Compagnie Financiere, Edmond De Rothschild Group	1000	5000	N	Y	Y	Y	N	2-7 years	1 425 69275
Paribas Technology	1000	Open	Y	Y	Y	Y	Y	2-7 years	1 429 80560
Sparex	1000	15000	N	Y	Y	Y	N	Flexible	16 7852-4107
Sofinnova S.A	200	5000	(*)	(*)	(*)	(*)	(*)	(*)	1 428 09870
Sogginnove S.A.	200	3000	Y	(*)	Y	(*)	(*)	(*)	1 474 27060
Subsec	1000	6000	Y	Y	(*)	Y	(*)	(*)	1 426 64787
Thomson-CSF Ventures	1000	Open	Y	Y	Y	Y	Y	Flexible	1 4561 9500
GERMANY (All figures in DM'000s)									
Genes GMBH	250	1000	Y	Y	N	Y	N	(*)	2234 5907079
IDP Industrial Development Partners GMBH & Co.	500	3000	Y	Y	Y	Y	Y	(*)	8174 4017
Neu-Europa Hitec & Biotec	500	10000	Y	Y	Y	Y	Y	2-10 years	3088 42930
Tig Technologie Investitions GMBH & Co	0	Open	Y	Y	N	Y	N	2-7 years	3088 27201
TVM Techno Venture Management GMBH & Co	500	2500	Y	Y	Y	Y	Y	(*)	8955 87902
WFG Deutsche Gesellschaft Für Wagniskapital MBH	250	1500	Y	Y	Y	Y	Y	2-7 years	6971 0040
GREECE (All figures in DR'000s)									
Hellenic Organisation for Small & Medium Sized Industries & Handicrafts	0	40000	Y	Y	N	N	N	(*)	771 5002
National Investment Bank for Industrial Development (NIBID) A.E.	0	200,000	Y	Y	Y	Y	N	(*)	324 2651
IRELAND (All figures in IR£'000s)									
Allied Irish Investment Bank plc	50	4000	Y	Y	Y	Y	Y	2-7 years	160 4733
Development Capital Corporation Limited	250	2000	Y	Y	Y	Y	Y	5-10 years	1631 011
ICC Corporate Finance Limited	50	300	Y	Y	Y	Y	(*)	(*)	172 0055
The National Development Corporation Ltd.	50	2000	Y	Y	Y	Y	N	3-6 years	1 600611
ITALY (All figures in Lm)									
Cradipar	0	Open	Y	Y	N	Y	Y	5-7 years	6475 0445
Eurovenca	0	4000	Y	Y	Y	Y	Y	7-10 years	11850 2665
Finnova S.p.A.	200	1000	Y	Y	(*)	Y	(*)	(*)	2659 6221
SIGE S.p.A.	500	10000	(*)	(*)	(*)	(*)	(*)	(*)	6879 6802
SO.FI.PA. (Societa Finanziaria Partecipazione S.p.A.)	500	6000	Y	Y	Y	Y	N	1-5 years	6844 0641
Tiengais	250	Open	Y	Y	(*)	Y	(*)	(*)	270 0354
LUXEMBOURG (All figures in BF'000s)									
International Venture Capital Partners S.A.	200	1000	Y	Y	Y	Y	Y	(*)	48 9228
NETHERLANDS (All figures in FL'000s)									
Atlas Venture Beheer B.V.	0	Open	Y	Y	(*)	Y	(*)	Flexible	20 973131
De Nationale Investeringsbank N.V.	1000	Open	Y	Y	(*)	Y	(*)	Flexible	70 425425
Euroventures Benelux Team N.V.	500	15000	Y	Y	(*)	Y	(*)	(*)	73 408243
Gilde Venture Fund B.V.	250	2500	Y	Y	Y	Y	Y	(*)	30 510534
Holland Venture Beheersmaatschappij B.V.	250	(*)	P	Y	(*)	Y	(*)	(*)	20 991111
Investeringen Oranje Nassau B.V.	100	2500	Y	Y	(*)	Y	(*)	5-8 years	70 469570
Maatschappij voor Industriele Projecten	1000	Open	Y	Y	(*)	(*)	(*)	(*)	70 469295
MIP Equity Fund	2500	(*)	(*)	(*)	(*)	(*)	(*)	(*)	70 469265
NeSBIC B.V.	50	(*)	Y	Y	Y	Y	Y	(*)	20 250915
NORO Venture B.V.	0	10000	Y	Y	(*)	(*)	(*)	4-7 years	33 331113
Venture Fund Rotterdam B.V.	0	(*)	(*)	(*)	(*)	(*)	(*)	(*)	10 143444
PORTUGAL (All figures in ESC'000s)									
Promindustria-Sociedade Portuguesa de Capital de Risco, S.A.	0	100000	Y	Y	N	Y	N	Flexible	01 541016
SPR-Sociedade Portuguesa de Capital de Risco, S.A.	0	100000	Y	Y	N	Y	N	Flexible	02 687165
SPAIN (All figures in PTS'000s)									
BBG-Gestora Inversiones Bancobao S.A.	10000	(*)	Y	Y	Y	Y	Y	(*)	341 458 0285
Sefinnova S.A.	5000	(*)	(*)	(*)	(*)	(*)	(*)	(*)	341 411 1106
Sociedad Bancaya De Promocion Empresarial	0	100000	Y	Y	N	N	N	Flexible	341 411 3111
Sociedad Gestora De Fomento Empresarial	30000	300000	Y	Y	Y	Y	Y	Flexible	341 435 3580
SWITZERLAND (All figures in SFR'000s)									
Baring Brothers Hambrecht & Quist	200	2000	Y	Y	Y	Y	Y	(*)	2202 1226
Euroventures Genevest Management S.A.	500	1500	Y	Y	Y	Y	(*)	(*)	2242 6940
Groupement Pour La Promotion Du Capital Risque	200	Open	Y	Y	N	Y	N	7-10 years	2127 7291
Venture Associates S.A.	75	1000	Y	Y	N	Y	N	2-7 years	3723 1835

Signs indicate reaction of managers as follows: Y=Yes, N=No, P=Possible. *=Information not available.

Anthony Moreton assesses the tide of enterprise that is helping to bring regeneration to Wales and the West of England

Three funds point the way

LATE LAST month, in Plymouth, the Devon Enterprise Fund was launched into the sea of enterprise, the latest concern to do something about economic growth within a clearly defined area.

The fund, backed by an initial grant of £500,000 from Devon County Council, aims to assist expansion within the county. Investments are expected to range between a lower level of £50,000 and an upper limit of £250,000, and are designed to complement rather than replace traditional sources of finance such as the banks.

Earlier, a similar fund had been set up by private capital and the pension funds of Avon and Wiltshire county councils, called Avon Enterprise Fund to operate out of Bristol. Its minimum investment was planned to be £25,000.

A third fund, Capital West, in which the Avon Enterprise Fund has a stake, has also been set up, to find equity finance for companies in the South West.

These three funds indicate the keen activity in this sector in the South West of England to do something about the growing needs of businesses for specialist finance.

The Devon fund was primarily set up to provide finance packages to support commercially viable projects and encourage inward investment, whether that investment be from outside the country or outside the county. It has had advice from Granville, a London concern.

Avon Enterprise Fund, by contrast, was formed by Dartington, a West Country merchant bank. Its primary objective was capital appreciation through investment of risk capital in small companies with growth potential. It does not have geographic limits but expects to confine itself largely to the county.

Dartington is the common factor in Capital West, since it brought together the consortium to provide the equity finance, though in its case over the wider area of the south-western counties.

It has been joined by the Development Capital Corporation, Ensign Trust, ECI Ventures, Globe Investment Trust, Kleinwort Benson Development Capital, Legal and General Assurance, Quester Capital Management and Sun Life Assurance.

The criteria adopted by the funds varies. In the case of Devon, it primarily seeks to invest new money in concerns. But it will consider participating in syndicated investment amounting to more than £250,000 where its presence acts as a catalyst in bringing in other investors.

Typically, it sees these larger investments as being established companies planning to set up in Devon, or management buy-outs - though it does not want such investments to account for more than a quarter of its total funds.

The DEF will make its investments in the form of equity, preference, loan stock or any other form of acceptable financial instrument. It expects the proportion of the ordinary equity to be between a quarter and a half of that put up.

At Avon, those participating include: Allied-Lyons Pension Funds, British & West Building Society Pension Trustees, Bristol United Press, CHB Pension Trust Corporation, Equity Capital for Industry, Phoenix Assurance, The Society of Merchant Venturers, Sun Life Assurance, the Water Authorities Superannuation Fund, and White Hart Investments, a sister company of Dartington.

Investments are a mixture of equity and preference capital, with the equity share being between 20 and 40 per cent of the total.

Where large sums are involved, Dartington arranges for syndication.

The need for these local funds arises, according to Mr David Johnstone, managing director of Dartington, because the City frequently will not look at smaller amounts.

"The bulk of investment funds are now controlled by the City, and the time taken to deal with an investment of £100,000 can frequently be little different from the time taken to deal with an investment of £1m," he says. "It is therefore not surprising that City investment managers have a cut-off point, which for many is £1m, and for some is even higher."

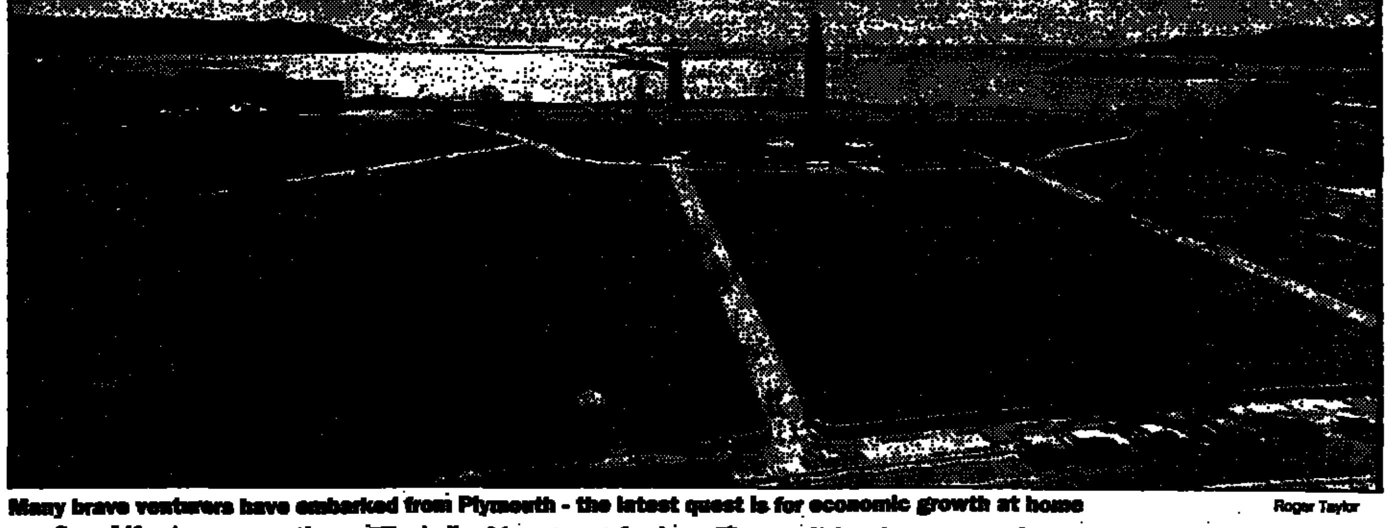
Mr Johnstone adds that a small start-up company is unlikely to provide an exit route for investors in the sort of period, three-to-five years, than many are looking for. Funds can help this sort of company better than the City.

The traditional sources of finance, such as the banks, are not always able to meet the needs of growing businesses, he believes, because the quality of decision-making varies very much. A large city-centre bank might be able to provide just the expertise needed, but a branch in a small country town would almost certainly not. It is into this gap that the funds can move.

Mr Johnstone also believes that, to some extent, the funds can play a role in their areas similar to that undertaken by the Welsh and Scottish Development Agencies. "I see no material difference in the problems of Devon and Cornwall from those of Wales and Scotland. In Dartington, we have been trying to provide one part of the sort of activities covered by the agencies."

Mr. John Snell, managing director of the Devon Enterprise Fund, says that its launch should "signal the start of a substantial movement to invest in Devon."

If that does happen, and it is repeated elsewhere in the South West, then the funds will have made an important contribution towards regenerating the economic life of the area.



Many brave venturers have embarked from Plymouth - the latest quest is for economic growth at home

Roger Taylor

An influential fund

IN THE two years since it was set up, the Welsh Venture Capital Fund has invested just over £8m in 180 small to medium sized businesses and become one of the most influential players in the venture capital business in Wales.

It is not the largest. That distinction belongs to 3i (Investors in Industry) - whose director for Wales, Mr Charles Richardson, has been averaging some £9m a year in some 20 investments a year.

There is, too, the Welsh Development Agency, which in its 10-year life has built a portfolio of £31m in 434 concerns, compared with 3i's £45m in 140.

"Nevertheless, the Welsh Venture Capital Fund has become a very important addition to the financial scene," says Mr Norman Myerscough, its fund manager. "Most venture capital is concentrated in Greater London and the South East, and it is important that organisations outside this area exist to service a market that might be overlooked by people who are heavily London oriented."

There is a close affinity between the WDA and the venture fund, because the agency, set up to regenerate the Welsh economy in a number of different ways (land dereliction, equity investment, inward investment), joined forces with the Development Capital Group, a Lazards subsidiary, to establish it.

The intention was to have a body that could offer the institutions the opportunity to invest in private companies in Wales.

"The figures show how successful we have been," Mr Myerscough says. "But they do not tell the whole story. A venture capital fund must be ready to participate closely in a business. Yet many growing concerns are intensely suspicious about 'interference' from outsiders, and so the fund managers have to woo managers carefully.

"Building a business is a lonely task. Entrepreneurs do not always take kindly to outside 'advice', so we have to tread very warily."

Mr Myerscough reached Cardiff, the home of the fund, by a long route that took in East Africa. Now 43, he graduated in chemical engineering from Sheffield University and then took professional qualifications with Coopers & Lybrand. A spell in East Africa preceded management consultancy work in London with Coopers and further venture capital activities in the UK, before he arrived in Cardiff two years ago.

"It is a fallacy to think there is a north-south divide in finance and that the north starts at Watford," he says. "The line can actually be drawn from the Severn to the Wash, and so Wales is definitely in the under-privileged 'north' as far as this field is concerned.

"Wales has faced as great a challenge as any part of Britain as its economy has evolved over the last decade or so, and it needs a vibrant venture fund industry to help it rebuild. A big team effort has already gone into rebuilding the Welsh economy, and I am glad that we in the fund are part of that."

Equity investment is not the sole, or even dominant, activity of the fund, though. It is also concerned with management buy-outs and development finance.

"The important thing is to have a balanced portfolio," Mr. Myerscough adds. "We would like the fund to consist of 40 per cent management buy-outs by value, 35 per cent development capital finance. and 25 per cent start-ups."

The figures show the fund to be not far away from this ideal. It has put 37 per cent by value so far into buy-outs, 28 per cent into start-ups and 35 per cent into development capital, which it breaks down into 15 per cent into early development capital and 20 per cent into later developments.

Among those that have been helped have been Power Brushes, of Chepstow, which manufactures industrial brushes and artificial ski slopes. The fund took a 25 per cent stake in the concern, costing £200,000, and has seen pre-tax profit rise to £1.4m already.

On the management buy-out side, the fund has helped concerns such as Crestacre Holdings, a plant-hire concern once part of the Tern construction group - done in conjunction with Midland Montagu Venture Fund, 3i and Gresham Trust - and Owner Fleet, a Porth, Mid Glamorgan, concern making Christmas decorations that came out of the Gooding Group.

Development capital has been provided for Deeside Aluminium, in North Wales; Primographic, a specialised print company; and West 'n' Welsh, a home improvements company that has recently announced an expansion at its Cardiff base as well as the take-over of an English competitor.

The fund is fortunate in having a wide spread of investors in it. Its £5.6m capital was put up by seven local authority pension funds in Wales, and by Barclay Investment Management Group, the BP and ICI pension funds, Postel, Guardian Royal Exchange and the Prudential, as well as its founding father - the WDA.

"We are looking to help companies in either manufacturing or service sectors," Mr Myerscough says. "It is people rather than products, though, that we consider essential. They are essential to a good company.

"It must have, of course, a successful track record, management commitment to enterprises, an ability to react to market conditions, a viable product, and real growth potential

"But above all it must have good people running it. That is where success lies and that is what we are looking for."

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Profile: **Ross and Catherall**

Flotation will justify long view

TWENTY YEARS after Investors in Industry (3i) first took a stake, the South Yorkshire superalloy manufacturer Ross and Catherall (R&C) is getting warmed up for flotation.

It is two years away yet, but the lesson promises to be one of the biggest justifications ever for taking a long-term view of venture capital - and it will be especially sweet for Mr Jon Foulds, 3i's chief executive.

He was the investment manager in the Sheffield office who negotiated what eventually became a 44 per cent stake in R&C for £700,000 in 1967. Without it - and 3i's supportive but non-interventionist role since - it is highly unlikely that the company would be the force it is today.

For R&C was about to be sold, probably in bits, to pay death duties on the estate of its former principal shareholder. He had acquired it to safeguard his supply of magnets for his loudspeakers factory. It still makes magnets, but R&C's main business now is the special alloys that go to make things like turbine blades in jet aircraft.

Apart from 3i, R&C's shareholders are three family trusts - representing the original founders and the last owner - and the executive directors. It is the freedom allowed to the latter, coupled with all-equity financing and no borrowings, that has enabled R&C to emerge.

3i's Paul Gilmartin

Its superalloys also go to make superchargers and turbochargers. A measure of where R&C is in this latter field is that 85 per cent of the world's turbocharger wheels for the motor industry are now made from its metals.

At its main factory - a few yards over the South Yorkshire border, in Derbyshire, to keep the rates down - it now has the world's biggest concentration of the high technology vacuum casting furnaces in which superalloys are made.

They are the key to success. Brewing the alloys in a vacuum makes them purer and stronger, because there is no air to cause the tiny pockets of oxidation that can lead to weak, fatigue-prone faults deep within a metal's structure.

R&C's feel for the market in these is such that it installed its third 3.5-ton furnace during the depths of recession, commissioning it in 1982, confident that the cycle of demand for its exotic metals would pick up again. This was the judgment of Mr Des Mawson, the chief executive.

He says: "Aerospace is a bit of a club. It's always something special that's wanted, always to a higher standard. I deal with all the key accounts myself. We keep our ears close to the market worldwide, and know what's going on and what the trends are.

"We turn over about £25m now and are heading for £40m. Small as that may be in international terms, everyone in the aerospace industry worldwide knows us."

The expanding turbocharger market for cars encouraged another big investment decision - the purchase of Trucast, the Isle of Wight manufacturer of turbo wheels, from Birmid in 1981. This was also in the depths of recession, but R&C had an insurance purpose here as well as an expansionist one, for Trucast was a major customer.

Acquisition also solved another problem: like other European companies it always struggled to get the technical approvals needed to supply US aerospace giants, so it bought Certified Alloy Products, a California company turning over $25m with the necessary approvals from big buyers such as General Electric and Pratt and Whitney.

Air melting superalloys, at Ross and Catherall

With R&C already a major supplier to Rolls Royce, this gives it access to all the major aero engine manufacturers. The importance of this is that every jet engine requires 30 times the original volume of components for spares during the 30 years of its life.

Rolls Royce also provided an unwitting opportunity to R&C. Mr Mawson says: "In 1970, we had £3m invested in plant to make parts for Rolls Royce and the RB-211 engine.

"They went bust owing us £300,000, but we continued to supply them, even though other people were holding back supplies and demanding their money. You get a name for fair dealing, and that matters. People never forget."

Mr Paul Gilmartin, head of 3i's Sheffield office, says this also points to the value of venture capital: "The circumstances were exactly those where banks and other lenders put in receivers to make sure of their own money. Venture capitalists, however, have no choice but to sit tight and rely on the management to pull them all through."

Not having to worry about what the stock market thought year to year, and with so few shareholders to carry with him, Mr Mawson's long view seems to have paid off. Substantial portions of yearly profits have been ploughed back for an investment programme that has cost £23m in 20 years, all paid for up front in cash.

Mr Mawson's investment philosophy is simple: "What we have gone for is automation, robotics and every type of production aid we can. We have got to sell in a competitive market. There is nothing so deadening long term as the cost of labour." The group still employs 800, however, and is growing.

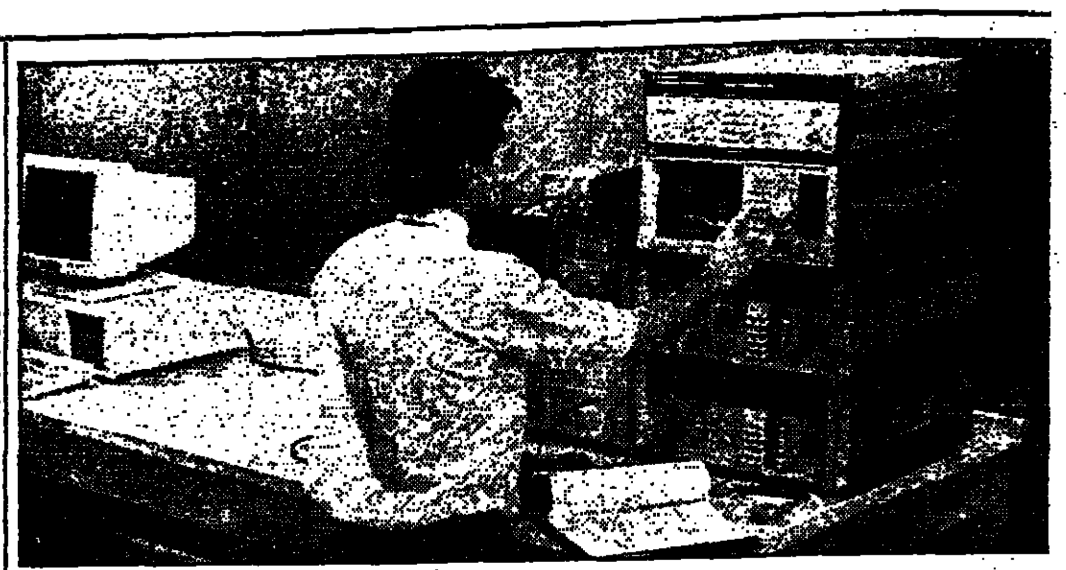
Knowing the market and its long-term cycles - and having the cash from those ploughed-back profits - enabled another simple practice: "We have usually done big investments in recession because it's a good time to do it. You don't disrupt production, and you have then got the capacity for when you need it."

Mr Mawson says: "We lost half our turnover in the recession but we never made less than £1m. Since then we have climbed right back up." He will not say what profits are now, but Mr Gilmartin says that any public company would be very pleased to do as well.

He therefore expects R&C's flotation to make a lot of money, whatever the state of the stock market two years from now. It is a sound, well-run business that has cornered a stable global share of an expanding high-tech market.

No one will say how much it is worth, but one estimate is that shares worth £1-5s-0d in 1967 could well fetch £180 each. The value of the long view - and the patience which a body like 3i can afford in abundance - could have no better advertisement.

Ian Hamilton Fazey



EMC equipment at the greenfield site near Basingstoke

Profile: **Radio Frequency Investigations**

Waves in the park

WORD-PROCESSORS, computers, engines and deep-freezes all emit radio-waves. Being invisible and generally harmless, such emissions pass unnoticed by all but the boffin.

Imagine, however, that by some malign twist of fate, stray waves conspire to clog up the computerised braking system on a brand-new car; or prevent effective communication between ground-control and a "fly by wire" aircraft. The consequences could be grave.

In an era of increasing reliance on digital control and processing systems, in both military and civil life, it is clearly important to be able to measure a piece of equipment's sensitivity to radio-waves. Similarly, it helps to be able to measure its stray output.

Military equipment has always had to achieve high levels of performance in harsher environments; and electro-magnetic compatability testing (EMC) - as the measurement procedure is known - is a mature industry in the UK. Accounting for some 70 per cent of the market, EMC for the military is growing slowly at best, in line with static defence spending.

But, according to the two young entrepreneurs who have just set up Radio Frequency Investigations, the situation in the civil market is totally different.

Until now, few products had to meet any EMC regulations, and the demand for testing was correspondingly slack. The major exceptions have been those companies exporting to Germany and the US, countries which have for some time applied stringent emissions regulations.

All is now set to change, as the EC lumbers towards the 1992 deadline for the abolition of trade barriers within Europe. One result of this "harmonisation" process is that the UK will be obliged to introduce its own set of regulations covering emission testing of almost all electrical and electronic equipment. The most important product area is likely to be data processing and telecoms equipment.

As employees of Rohde & Schwarz, a German manufacturer of EMC test equipment, Stephen Kirk, aged 27, and Brian Watson, 26, were ideally placed to keep abreast of these developments. Over a drink last autumn, they identified what they believed to be a gap in the market for a new testing facility, using the very latest equipment and located in the South of England.

RFI is the result. Literally a "greenfield" company, its premises are located at Ewhurst Park, in the middle of the countryside close to Basingstoke. An acre of land constitutes the outdoor test site; a number of converted farm buildings house administrative offices and the indoor test facilities.

Locating the premises proved only marginally less difficult than raising the start-up capital - RFI needed a rare combination of offices and land far from sources of interference such as motorways and other light industrial units.

In order to show willing as they tramped from institution to institution in search of cash, Kirk pledged to remortgage him home, and Watson borrowed £20,000 from his father. With the help of accountants Peat, Marwick, McLintock, they delivered business plans to half a dozen institutions. Of these, two expressed interest; and after a series of interviews and a grilling from a squad of independent assessors, Gresham Trust agreed to put in £120,000 by way of start-up capital. This can be converted into one third of the company's equity at any time between now and 1992.

Negotiations with Gresham took place over six months ago. Since then, Kirk and Watson have mounted their protracted search for premises, and succeeded in negotiating further finance. They have access to a £25,000 overdraft and have a £120,000 leasing facility. Including the £20,000 put in by each of the two founders, the new company has thus managed to raise more than £200,000.

Two months ago, RFI made contact with 100 potential customers. To date, 30 have written back expressing serious interest in what the company has to offer, even though the testing is not yet working at anything like full capacity: its projections suggest that there will be only four days testing in December. However, research indicates that there is a two months waiting list to get a week's testing, so capacity is likely to be fully taken up as the equipment becomes ready.

Kirk and Watson expect turnover of £150,000 in the first year's trading and £200,000 after the second - at which point, it will be time to seek a second tranche of capital. "If we meet our projections, we'll be very happy," says Kirk. "If we do better than that, we'll be laughing."

David Waller